



## Item No. 13 Town of Atherton

### **CITY COUNCIL STAFF REPORT – REGULAR AGENDA**

**TO: HONORABLE MAYOR AND CITY COUNCIL**

**FROM: GEORGE RODERICKS, CITY MANAGER**

**DATE: MAY 15, 2019**

**SUBJECT: ADOPTION OF A RESOLUTION OF THE CITY COUNCIL OF THE TOWN OF ATHERTON APPROVING THE ISSUANCE OF UP TO \$64 MILLION OF SOLID WASTE ENTERPRISE BONDS TO REFINANCE OUTSTANDING BONDS OF THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY (SBWMA) AND TO FINANCE CERTAIN IMPROVEMENTS TO THE SOLID WASTE MANAGEMENT FACILITIES OF THE SBWMA.**

#### **RECOMMENDATION**

Consideration of adoption of a Resolution of the City Council of the Town of Atherton, attached hereto, approving the issuance of up to \$64 Million of Solid Waste Enterprise Bonds to refinance outstanding Series 2009A bonds of the SBWMA and to finance certain improvements to the Authority-owned Solid Waste Facilities of the SBWMA.

#### **BACKGROUND**

In August 2009, the SBWMA issued \$53,500,000 tax-exempt Solid Waste Enterprise Revenue Bonds, Series 2009A to fund improvements to the Shoreway Environmental Center. Currently, \$44,685,000 of the 2009A Bonds remains outstanding.

The 2009A Bonds were issued during a high interest rate period, and currently SBWMA is paying interest on the 2009A Bonds ranging from 5% to 6.25%. Given the current level of tax-exempt interest rates, a refunding of the 2009A Bonds produces strong present value savings as current borrowing rates, inclusive of transaction expenses, are significantly lower than when the 2009A Bonds were originally issued. Tax law stipulates that the 2009A Bonds must be refunded on a “current” basis (on or after 90 days before the September 1, 2019 call date). As such, the first possible date that the 2009A Bonds can be refunded is June 1, 2019. If refunded on June 1, 2019 as proposed, the outstanding 2009A Bonds would be redeemed with the proceeds of the proposed 2019 Refunding Bonds at their first optional redemption date, September 1, 2019.

Based on current market interest rates, a refunding of the 2009A Bonds is estimated to generate approximately \$10.0M in present value savings. The execution of a refunding transaction creates a one-time, unique opportunity for SBWMA to raise additional new money proceeds while accessing the capital markets by deploying refunding savings to raise new capital while also considering the issuance of additional debt.

A Bond Refunding Work Plan was approved by the SBWMA Board on September 27, 2018. **Table 1** below illustrates the subsequent equipment and financing project review milestones, culminating in the SBWMA Board's approval of the Plan of Finance Approach, as presented at its March 28, 2019 Board Meeting.

**Table 1**  
**2019 Bond Issuance Milestones**

<b>Date/Meeting</b>	<b>Action Item / Approval</b>
<b>September 27, 2018: Board Meeting</b>	<ul style="list-style-type: none"> <li>• <b>Approval</b> – Bond Refunding Work Plan</li> </ul>
<b>October 3 &amp; 10, 2018: Zero Landfill Committee Meeting</b>	<ul style="list-style-type: none"> <li>• Presentation and Discussion – Organics to Energy (O2E) Project and AB1383</li> </ul>
<b>November 2, 2018</b>	<ul style="list-style-type: none"> <li>• Municipal Advisor RFQ Issued</li> </ul>
<b>November 5, 2018: Finance Committee Meeting</b>	<ul style="list-style-type: none"> <li>• Discussion – Capital Improvement Projects</li> </ul>
<b>November 15, 2018: Board Meeting</b>	<ul style="list-style-type: none"> <li>• <b>Approval</b> – Organics to Energy Pilot Project</li> <li>• <b>Approval</b> – Executive Director to Execute Contract for Municipal Advisor Services</li> </ul>
<b>January 4, 2019</b>	<ul style="list-style-type: none"> <li>• Contracted with KNN Public Finance to serve as Municipal Advisor.</li> </ul>
<b>January 10: Finance Committee Meeting</b>	<ul style="list-style-type: none"> <li>• Discussion – Capital Funding Plan</li> <li>• Presentation – MRF Equipment Upgrades</li> </ul>
<b>January 24: Board Meeting</b>	<ul style="list-style-type: none"> <li>• Presentation – Financing Objectives and Alternatives</li> </ul>
<b>February 14: Finance Committee Meeting</b>	<ul style="list-style-type: none"> <li>• Discussion – Plan of Finance</li> <li>• Study Session – MRF Equipment Upgrades</li> </ul>
<b>February 28: Zero Landfill Committee Meeting</b>	<ul style="list-style-type: none"> <li>• Study Session – MRF Equipment Upgrades</li> </ul>

Date/Meeting	Action Item / Approval
<b>February 28: BOD Meeting</b>	<ul style="list-style-type: none"> <li>• Presentation – Financing Alternatives</li> <li>• Presentation – MRF Processing Equipment Upgrades</li> <li>• Favorable Straw Pole on Capital Improvements, Bond Refunding and New Money Issuance</li> <li>• <b>Approval</b> – Bond &amp; Disclosure Counsel and Underwriter Appointment</li> </ul>
<b>March 28: Board Meeting</b>	<ul style="list-style-type: none"> <li>• <b>Approval</b> – Plan of Finance Approach</li> </ul>
<b>April 10</b>	<ul style="list-style-type: none"> <li>• Model staff report and resolution approving the issuance of 2019 Bonds to Member Agencies</li> </ul>
<b>April 11: Finance Committee (pending)</b>	<ul style="list-style-type: none"> <li>• Presentation - overview of financing documentation and issuance parameters</li> </ul>
<b>April 25: Board Meeting (pending)</b>	<ul style="list-style-type: none"> <li>• Adopt resolution recommending approval of the 2019 Bonds to Member Agencies</li> </ul>

**FINDINGS/ANALYSIS**

**Overview of the 2019 Bond Issuance**

The proposed bonds would be issued to

- (i) refund the SBWMA’s Solid Waste Enterprise Revenue Bonds (Shoreway Environmental Center), Series 2009A (the “2019 Refunding Bonds”); and
- (ii) and (ii) pay the cost of certain improvements to the SBWMA’s solid waste management facilities (the “2019 Revenue Bonds” and, together with the 2019 Refunding Bonds, the “2019 Bonds”).

The 2019 Bonds will also fund a deposit to the Reserve Account and pay costs of issuance on the 2019 Bonds. *The anticipated savings expected to be generated through the 2019 Refunding Bonds creates an opportunity for SBWMA to raise \$20M in new money proceeds by deploying the refunding savings to raise new money capital (\$10.0M) in tandem with the issuance of additional debt (approximately \$10.0M) to fund priority capital projects of the SBWMA with minimal impact to the SBWMA’s current annual debt service payment obligations.*

Overall, the objective of the issuance of the 2019 Bonds is to maintain an aggregate average annual debt service payment near SBWMA’s current annual obligation on the 2009A Bonds (\$4.1M annually) while also extending the final maturity of the combined issuance by six (6) years (from

September 1, 2036 to September 1, 2042) to allow for the additional new money capital. This issuance approach is supported by the SBWMA Finance Committee and SBWMA Board. See **Attachment B** – Bond Plan of Finance Slides.

**SBWMA Capital Projects to be Financed with the 2019 Bonds**

**Table 2: Capital Projects and Source of Funds**

<b>Capital Projects and Source of Funds</b>			
<b>BOD Action</b>	<b>Project</b>	<b>Agency Cost</b>	<b>Payback (w/interest)</b>
2019	MRF Sort System Upgrades	\$15.6M	6.3 years
2021	O2E Full-Scale Project	<u>\$10.0M</u>	Cost Neutral
<b>Capital Projects Estimated Costs</b>		<b>\$25.6M</b>	
<b>Agency Source of Funds</b>		<b>Amount</b>	<b>Status</b>
Capital Reserve		\$5.5M	Mid-Year 18/19 Budget projected balance
Bond Refunding Savings		\$10.0M	Pending refunding of 2009A Bonds
New Money Issuance		<u>\$10.0M</u>	Pending issuance with 2019 Refunding Bonds
<b>Total Estimated Funds</b>		<b>\$25.5M</b>	

***Materials Recovery Facility (MRF) Equipment Upgrades (\$15.6M).***

The proposed equipment upgrades, consisting of Phase I and Phase II, provide strong operational enhancements that will financially benefit the SBWMA for the next twelve years. The Phase I Upgrades includes three projects:

1. Optical Sort of Small Fiber (\$4.2M);
2. Robotic Sorting of Residue/QC System (\$1.6M); and
3. Enhanced Glass Cleanup System (\$684K) – providing financial, commodity market, and operational enhancements.

The Phase II Upgrades consist of six-optical sorters to be installed in place of some sort labor to significantly upgrade mixed paper to High-Grade paper and recover additional recyclables. Phase I Upgrades are designed to be installed prior to Phase II so that the improvements in commodity quality can be assessed in the final design of Phase II Upgrades.

The financial benefit over the 12-year useful life of the equipment is estimated to be \$29.6M, resulting in an estimated net financial benefit of \$14.1M (including equipment interest expense). See Table 3 below. The financial benefit is achieved through increased commodity capture (new revenue) and reduced labor expense. New revenue will be increased by improving commodity material sorting efficiency and accuracy, resulting in higher grade material that can be marketed

at its maximum value. Manual sort labor expense will also be reduced by installing high efficiency optical and robotics sorting systems. In addition, the equipment will increase the plant's throughput of materials, achieve increased fire risk mitigation and protect from landfilling paper. A detailed description of the MRF Equipment Upgrades, associated benefits and third-party justification can be found in **Attachment A – February 2019 BOD Presentation on MRF Processing Equipment Upgrades.**

**Table 3: MRF Estimated Financial Benefit**

<b>MRF Enhancement Cumulative Financial Benefit Summary</b>		
Capital Improvement Cost	\$	15,579,944
Revenue Benefit *	\$	23,112,044
Cost Avoidance Benefit	\$	6,529,164
Estimated Revenue & Cost Benefit (through 12 year useful life)	\$	29,641,209
<b>Cumulative Financial Benefit</b>	<b>\$</b>	<b>14,061,265</b>

*\* Revenue benefit decrease from **Attachment A - February BOD Presentation on MRF Processing Equipment Upgrades** due to potential softening of the high grade paper market over time.*

***Organics-to-Energy – Full-Scale Project (\$10.0M).***

At its November 2018 Board Meeting, the Board approved the Organics-to-Energy (O2E) Pilot Project and recommended funding the full scale O2E project after the O2E pilot project's proof-of-concept is (presumably) achieved. The O2E Full Scale Project is estimated to be cost neutral; reduced transportation and tip fee costs are expected to be offset by Shoreway processing and equipment costs. Project benefits include; estimated 25-30% reduction in landfill waste (SB1383), significant GHG emissions reduction as a result of reduced transportation and reduced commercial organics processing costs.

**POLICY FOCUS**

The SBWMA needs 8 member agencies to approve the Bond Refinance Resolutions in order for the refinance of the Bonds to be authorized. Atherton does not need to adopt the Resolution for this to be effective.

However, adoption of the Resolution does represent commitment for the refinancing and the bond covenants require member agencies to exercise “flow control” and deliver waste and recycling materials to the Shoreway Facility over the term of the bonds.

The refinancing of the bonds and subsequent expansion of the Shoreway facility will have an impact on the Town's future rates imposed on residents based on the Town's percentage allocation of SBWMA costs.

Given that the Town may consider alternative service providers that may or may not deliver materials to the Shoreway Facility, the City Council may wish to postpone review and/or approval of this issue until *after* the Town has had an opportunity to review its options resultant from any bid process. Alternatively, the Council may opt to simply *not adopt the Resolution* and express its perspective on the bond refinancing options.

### **FISCAL IMPACTS**

There are no direct fiscal impacts to Town funds. Fiscal impacts are related to the SBWMA and ratepayers.

The 2019 Bonds will be structured to achieve minimal annual rate payer impact over the current tip fee rates. Current annual debt service on the 2009A Bonds is approximately \$4.1 million. The 2019 Bonds will be structured such that annual debt service payments will not exceed \$4.3 million and will extend through September 1, 2042.

### **PUBLIC NOTICE**

Public notification was achieved by posting the agenda, with this agenda item being listed, at least 72 hours prior to the meeting in print and electronically. Information about the project is also disseminated via the Town's electronic News Flash and Atherton Online. There are approximately 1,200 subscribers to the Town's electronic News Flash publications. Subscribers include residents as well as stakeholders – to include, but be not limited to, media outlets, school districts, Menlo Park Fire District, service provides (water, power, and sewer), and regional elected officials.

### **ATTACHMENTS**

Resolution

Attachment A – February BOD Presentation on MRF Processing Equipment Upgrades

Attachment B – Bond Plan of Finance Slides

Attachment C – Capital Project Schedule

Attachment D – SBWMA Member Certificate/Opinion

**RESOLUTION NO. XXX**

**A RESOLUTION OF THE TOWN OF ATHERTON APPROVING THE ISSUANCE OF UP TO \$64 MILLION OF SOLID WASTE ENTERPRISE BONDS TO REFINANCE OUTSTANDING BONDS OF THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY AND TO FINANCE CERTAIN IMPROVEMENTS TO THE SOLID WASTE MANAGEMENT FACILITIES OF THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**

**WHEREAS**, the Town of Atherton is one of twelve equity members of the South Bayside Waste Management Authority (herein referred to as the “Authority”); and

**WHEREAS**, the Authority has proposed the issuance of solid waste enterprise revenue bonds in one or more series to (i) refund the Authority’s Solid Waste Enterprise Revenue Bonds (Shoreway Environmental Center), Series 2009A, currently outstanding in the principal amount of \$44,685,000; (ii) pay the cost of certain improvements to the Authority’s solid waste management facilities, located in the City of San Carlos; (iii) fund a deposit to the reserve account; and (iv) pay costs of issuance of the bonds.

**NOW, THEREFORE, THE CITY COUNCIL OF THE TOWN OF ATHERTON DOES HEREBY RESOLVE AND ORDER AS FOLLOWS:**

1. The City Council of the Town of Atherton approves the issuance by the Authority of solid waste enterprise revenue bonds in an amount not to exceed \$64,000,000.

**PASSED AND ADOPTED** at the meeting of the City Council of the Town of Atherton held on May 15, 2019 by the following vote:

AYES:  
NOES:  
ABSTAIN:

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Bill Widmer, Mayor  
Town of Atherton

ATTEST:

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Theresa N. DellaSanta, City Clerk

APPROVED AS TO FORM:

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William B. Connors, City Attorney



## STAFF REPORT

**To:** SBWMA Board Members  
**From:** Hilary Gans, Senior Contracts & Operations Manager  
**Date:** February 28, 2019 Board of Directors Meeting  
**Subject:** Presentation on MRF Processing Equipment Upgrades

### Recommendation:

This staff report is for discussion purposes only and no formal action is requested of the Board of Directors.

### Summary

In the wake of the commodity market challenges and the need to improve fiber commodity quality to ensure market outlets, SBWMA and SBR staff have analyzed many options to improve material quality. Automation of MRF sorting has emerged as a key strategy towards this goal. The Bond Refunding process provides a unique window to access capital for these future capital projects.

### MRF Phase I - Sort System Upgrade

**Cost:** \$7.3M (firm quote)

**Equip. Useful Life:** 12 Years; **ROI Payback:** 7.6-year payback (see attachment A)

**Net Agency Benefit:** 4.4 years

Designs have been completed and a quote for Phase I MRF Upgrade has been obtained from BHS. The Phase I Upgrades includes three projects with financial, commodity market, and operational enhancements that benefits the agency for the next decade. Phase I Upgrades are designed to be installed prior to Phase II so that the improvements in commodity quality can be assessed in the final design of Phase II Upgrades.

#### 1. **Optical Sort of Small Fiber (\$4.2M)**

**Description** – BHS optical sort systems are used at Shoreway for high-speed separation of containers. This same optical sorting technology will be applied to sorting contamination out of mixed paper to capture more commodity revenues.

**Benefits** – Optical sorting will capture cardboard and containers that can be sold at a \$1.3M/year in additional revenues (these materials are currently lost to mixed paper), 2) mixed paper will be cleaned up to High-Grade paper that sells at a \$70 per ton premium (see **attachment B**).

#### 2. **Robotic Sorting of Residue/QC System (\$1.6M)**

**Description** - BHS manufactures a robotic sorting system (Max-AI AQC) that utilize advanced recognition and AI technology to identify and sort a wide variety of materials. Applying this robotic system to the MRF residue will result in a reduction in sort labor expense and the capture of more recyclable materials that are currently "lost" to residue/disposal. Additionally, this recognition system will be installed at the end of

all fiber sort lines to identify, record, and report the fiber composition and quality so that the Phase II optical sort system will meet the fiber commodity quality standard for high grade paper.

Benefits - Robotic sort and quality control system benefits include: 1) reduced sorting expense of \$204K/year, increase capture of recyclables currently lost to residue, 3) data collection for used in design of Phase II fiber sort, and 4) ability to issue fiber-quality reports to buyers.

### 3. **Enhanced Glass Cleanup System (\$684,158)**

Description - The MRF glass commodity is created by breaking all the glass fed into the sorting system and then sifting fine material/glass out of the stream of recyclables. Currently this glass mix is contaminated with shredded paper, batteries, and small metals and plastic contaminates. The glass clean-up system will remove contaminates through a combination of magnets, screening and air. A key aspect of the project is to remove batteries and to reduce exposure to fires caused by batteries.

Benefits – 1) Reduced fire risk by removing batteries early in the sort line, 2) improved glass commodity sale price of \$4/ton, 3) other commodity revenue from metals and CRV recovery, 4) operational improvement from removal of shredded paper that is plugging the system causing plant stoppages.

## **MRF Phase II – Sort System Upgrades**

**Cost:** \$8.2 M (firm quote)

**Equip. Useful Life:** 12 Years; **ROI Payback:** 5-year payback (see attachment A)

**Net Benefit:** 7 years

Description: In response to the China mixed paper import ban, the recycling industry is transitioning to highspeed optical sorting technology to remove contamination and meet new paper quality standards. Six-optical sorters will be installed in place of sort labor to upgrade mixed paper to High-Grade paper and recover additional recyclables.

Benefits: 1) High-Grade paper sells at a \$70 per ton premium over mixed paper (see **attachment B** - letters from SBR and Potential Industries) providing the SBWMA \$1.5M/year in additional revenues, 2) commodities currently lost to mixed paper will be sold at a premium, 3) reductions in sort labor will save \$487K/year.

## **Organics to Energy – Full-Scale Project (\$10M, Cost Neutral)**

Description: In November 2018 the Board approved the O2E Pilot project and recommended funding the Full Scale O2E Project after proof-of-concept is achieved. Equipment design and layout has confirmed the cost of the project at ~\$10M. Board consideration of the O2E Full Scales is anticipated in 2021.

Benefits: 1) 25-30% reduction in waste to landfill, 2) significant GHG emissions reduction, 3) reduced commercial collection organics costs (estimated at over \$2M per year).

### **Attachments:**

**Attachment A:** MRF Processing Equipment Upgrades Financials

**Attachment B:** Letters from SBR and Potential in support of MRF Upgrades to improve commodity revenues

# Attachment A - MRF Processing Equipment Upgrades Financials

## MRF Phase I Equipment Upgrade Project

### Project Summary

Capital Expense			
Enchanced Glass Cleanup System	\$	684,158	
Max-AI Robotic Recovery	\$	1,635,000	
Third-Sort Optical	\$	4,548,094	
Package Discount	\$	(203,667)	
<b>Subtotal</b>	<b>\$</b>	<b>6,663,585</b>	
<b>Project Contingency</b>	<b>\$</b>	<b>666,359</b>	<b>10.0%</b>
<b>Total Capital</b>	<b>\$</b>	<b>7,329,944</b>	
Annual Financial Benefit			
1. Enchanced Glass Cleanup System	\$	67,883	
2. Max-AI Robotic Recovery	\$	204,637	
3. Third-Sort Optical	\$	978,982	
Package Discount			
<b>Subtotal</b>	<b>\$</b>	<b>1,251,502</b>	
<b>Total Benefit</b>	<b>\$</b>	<b>1,251,502</b>	
<i>Interest Expense is 10 Year Average</i>			
<b>Payback (Years)</b>		<b>5.86</b>	<b>7.60</b>
<b>ROI</b>		<b>17.1%</b>	<b>13.2%</b>
<b>Interest Rate on Bonds</b>		<b>4.5%</b>	

**\$ 7,329,944**

*c*

**Net Benefit**

\$ 39,313  
 \$ 136,361  
 \$ 789,056  
 \$ -

*b*

**Interest**

\$ (28,570)  
 \$ (68,276)  
 \$ (189,925)

**\$ 964,730**

**\$ (286,772)**

## MRF Phase II Equipment Upgrade Project

### Project Summary

Capital Expense	
CAPITAL	\$ 7,500,000
Contingency	\$ 750,000 10%
<b>TOTAL CAPITAL</b>	<b>\$ 8,250,000</b>

Annual Financial Benefit	
	<i>a</i>
	<i>b</i>
	<i>c</i>
	Net Financial Benefit

Net Incremental Revenue	\$ 1,494,260	\$ 1,494,260
Net Labor Savings	\$ 487,084	\$ 487,084
Interest (10 Yr Avg.)	\$ (322,767)	\$ (322,767)
<b>TOTAL SAVINGS</b>	<b>\$ 1,981,344</b>	<b>\$ 1,658,576</b>

Payback	4.2	5.0
ROI	24.0%	20.1%
Interest Rate on Debt	4.5%	

*includes Revenue Share  
excludes depreciation*

## Attachment B – Letters from SBR & Potential Industries



**Potential  
Industries Inc**

720 East "E" Street  
Wilmington, CA 90744  
(310) 549-5901

February 13, 2019

SBWMA, RethinkWaste  
Facility Operations Contracts Manager  
Mr. Hilary Gans  
610 Elm Street, Suite #202  
San Carlos, CA 94070

Re: High Grade Paper (HGP) sorted from MRFs

Dear Mr. Gans,

As you know, Potential Industries, Inc. (PII) has been exporting recovered paper for over 40 years. In addition to our own MRF sorted paper, we also market sorted paper from over 20 MRFs throughout the USA.

Based on our many years' experience, and using our best professional judgment regarding paper sorted from single stream MRFs: (a) we have serious concerns about the long term viability of traditional mixed paper, and (b) we believe High Grade Paper will continue to not only be in demand, but also the price for it will be significantly higher than traditional mixed paper.

In 2018 the price of High Grade Paper was approximately \$75 per ton higher than traditional mixed paper, and in our opinion that premium is likely to continue. Although nobody in the industry can accurately predict future pricing, we strongly encourage MRFs to upgrade their mixed paper to High Grade Paper because this grade will continue to be consumed by many paper mills.

Best Regards,

A handwritten signature in blue ink that reads "Daniel J. Domonoske".

Daniel J. Domonoske  
Executive Vice President

February 12, 2019

SBWMA, RethinkWaste  
Facility Operations Contracts Manager  
Mr. Hilary Gans  
610 Elm Street, Suite #202  
San Carlos, CA 94070

Re: Fiber Market Explanation and Price Comparison

Dear Mr. Gans,

Recovered paper and cardboard, also known as fiber, represents approximately 50% of the commingled materials sorted in the MRF. SBR has some of the best fiber export marketing capabilities in the recycling industry, which remains dependent on export due to lack of domestic demand. As you know, end user mills throughout SE Asia have tightened up their quality requirements, and MRFs throughout CA are responding by making higher quality products.

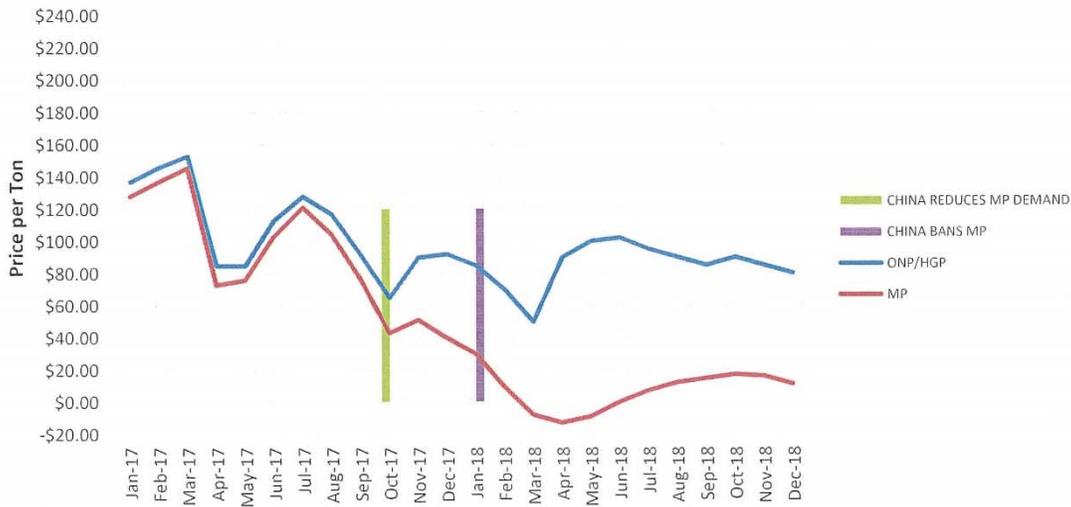
In 2018 China, then the largest end user of mixed paper in the world, banned the import of mixed paper. Although there are a few other markets in SE Asia for mixed paper, the price is very low. To make matters worse, there is trend in SE Asia for other countries to also ban mixed paper. By reducing the quantity of mixed paper being generated SBWMA has the opportunity to reduce their risk of having a sorted product without a market, either domestic or export. In addition, by creating a higher quality paper it can be sold at better pricing than Mixed Paper.

Graph #1 below shows the monthly price for High Grade Paper (formerly known as Old News Paper) compared to Mixed Paper. In 2017 those prices were quite close to each other. However, in Q4 2017 when it became clear that China would indeed ban Mixed Paper the gap between High Grade Paper and Mix Paper grew. The effective date of the ban was based on cargo arrival in China, as such the price gap accelerated in November and December 2017.

333 Shoreway Road | San Carlos, California 94070  
Tel 650.802.8355 | Fax 650.412.2495 | [SBRrecycling.net](http://SBRrecycling.net)

Graph #1

### 2017-2018 Price Comparison Old News Paper/High Grade Paper (ONP/HGP) v Mix Paper (MP)



In 2018 several haulers and MRFs were forced to send Mixed Paper to landfills. This was done either by stockpiling bales in hopes of a market resurgence only to find there was none, or no longer sorting it from the commingled stream and simply letting it go to residue without being sorted and baled in the MRF. In either case the outcome had negative impacts on diversion levels and public perception of recycling.

Today there is a unique opportunity available to SBWMA which is created by customer demand, technology developments for MRF processing equipment, and bond refinancing. These events provide SBWMA with a decision to make regarding the MRF: shall we invest in the future of our MRF?

In our professional opinion, by investing in the proposed MRF equipment upgrades there will be two changes to the fiber commodities: (1) less Mixed Paper being produced, and (2) more sorted fiber products being sold at higher pricing. These changes will increase the monthly revenues and also increase the number of end users that are interested in our fiber products.

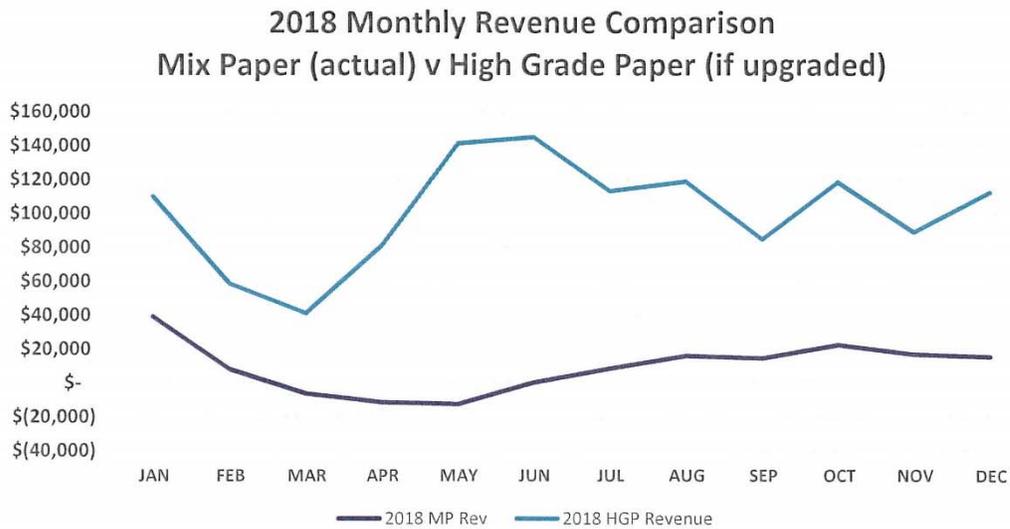
The initial economic benefit is producing a higher quality paper grade from the commingled materials which are collected in single family residential collection routes. That paper is mechanically screened on the residential sort line to create paper which is currently sold as Mixed Paper (a low value commodity). In addition to removing most of the cardboard, the proposed system will also remove contamination and

333 Shoreway Road | San Carlos, California 94070  
Tel 650.802.8355 | Fax 650.412.2495 | SBRecycling.net

containers from the Mixed Paper. As a result that paper will be higher quality and will be sold as High Grade Paper, at a premium price above Mixed Paper.

Graph #2 below shows the actual monthly revenue in 2018 for the paper which was sold as Mixed Paper (MP) compared to the monthly revenue for that same material if it was sold as High Grade Paper (HGP). The cumulative incremental economic benefit from selling those tons as HGP amounts to over \$1,100,000 in 2018, and that would have been achieved had the new equipment upgrade been installed and operational.

Graph #2



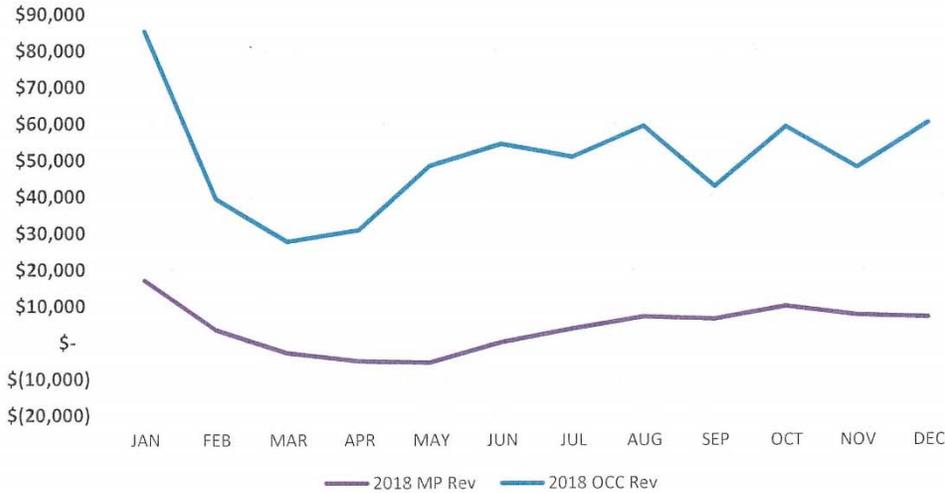
The other economic benefit from the proposed upgrade is increasing the amount of cardboard (aka Old Corrugated Containers, or OCC) being produced. Over the past 10 years there has been an increase in online shopping which results in households generating more cardboard, and those cardboard pieces are smaller in size and lighter in weight. As such a lot of that cardboard currently ends up in Mixed Paper. The proposed system will remove most of it from the Mix Paper (a low value commodity) and recover it as OCC cardboard (a higher value commodity).

Graph #3 below shows the actual monthly revenue in 2018 for the paper which was sold as Mixed Paper compared to the monthly revenue for that same material if it was sold as Old Corrugated Containers (OCC). The cumulative incremental economic benefit from selling those tons as OCC amounts to over \$500,000 in 2018, and that would have been achieved had the new equipment upgrade been installed and operational.

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Tel 650.802.8355 | Fax 650.412.2495 | SBRecycling.net

Graph #3

2018 Monthly Revenue Comparison  
 Mix Paper (actual) v. Cardboard (OCC (if upgrade))



In addition to the economic benefits listed above, there will be significantly less paper being sold as Mixed Paper. This is important because the uncertain future demand for Mixed Paper causes many in the industry to wonder how long it will remain a viable product.

SBWMA is working with two of the best partners in the industry, SBR (facility operations) and BHS (equipment supplier), and together the team can implement the proposed projects to create value that provides long term economic and environmental benefits to Member Agencies.

Future recycling commodity market pricing and quality requirements cannot be precisely defined. However, there is a consensus within the industry that the facilities which are sustainable will be those that are capable of doing two things: (1) producing grades that are in demand, and (2) producing qualities that are better than the prevailing industry average.

Best Regards,

Daniel J. Domonoske  
 Vice President

CC: Dwight Herring, GM

333 Shoreway Road | San Carlos, California 94070  
 Tel 650.802.8355 | Fax 650.412.2495 | SBRecycling.net



# South Bayside Waste Management Authority

Overview of the 2019 Bonds:

Refunding of Series 2009A Bonds and Financing Capital Improvements



1300 Clay Street, Suite 1000, Oakland, CA 94612  
phone 510-839-8200 fax 510-208-8282

A Limited Liability Company

# Market Rates Continue to Support a Refunding of the Series 2009A Bonds



\*The Bond Buyer Revenue Bond Index consists of 25 various revenue bonds that mature in 30 years. The average rating is roughly equivalent to Moody's "A1" and S&P's "A+".  
 Source: Bond Buyer Index: Bond Buyer. 10-year Treasury Yield Curve: The Department of the Treasury.

# Overview of the 2019 Bonds

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## **Plan of Finance Objective: Execute Bond Refunding and Raise \$20M New Money Proceeds through Savings and Additional Debt**

- Refunds outstanding 2009A Bonds to achieve debt service savings
- Issues additional “new money” bonds in addition to redeploying savings for capital
- Extends term of refunding bonds to achieve a short-term “window” to structure new money debt service with shorter average life restrictions
- Maintains annual payments approximately equal to \$4.1MM **but** extends bond term another six years to September 1, 2042 (from September 1, 2036)

# Key Assumptions for the 2019 Bonds

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- **Offering Type:** Fixed rate, public issuance
- **Security Type:** Solid Waste Enterprise Revenue Bonds (consistent with Series 2009A Bonds)
- **Ratings:** A1 (Moody's) / A+ (S&P); 2019 Bonds transaction ratings to be confirmed
- **Interest Rates:** Current rates as of April 4, 2019 plus 0.25% interest rate cushion
- **Closing Date:** June 26, 2019
- **Call Date:** September 1, 2029 (10-year par call)
- **Final Maturity:** September 1, 2042 (extended from September 1, 2036)
- **Issuance Expenses:** COI of \$300,000 and UW Discount of \$3.50 per bond
- **Debt Service Reserve Fund (DSRF):** Contribution of cash DSRF associated with the Series 2009A Bonds at current amount
  - New cash DSRF sized for the 2019 Bonds

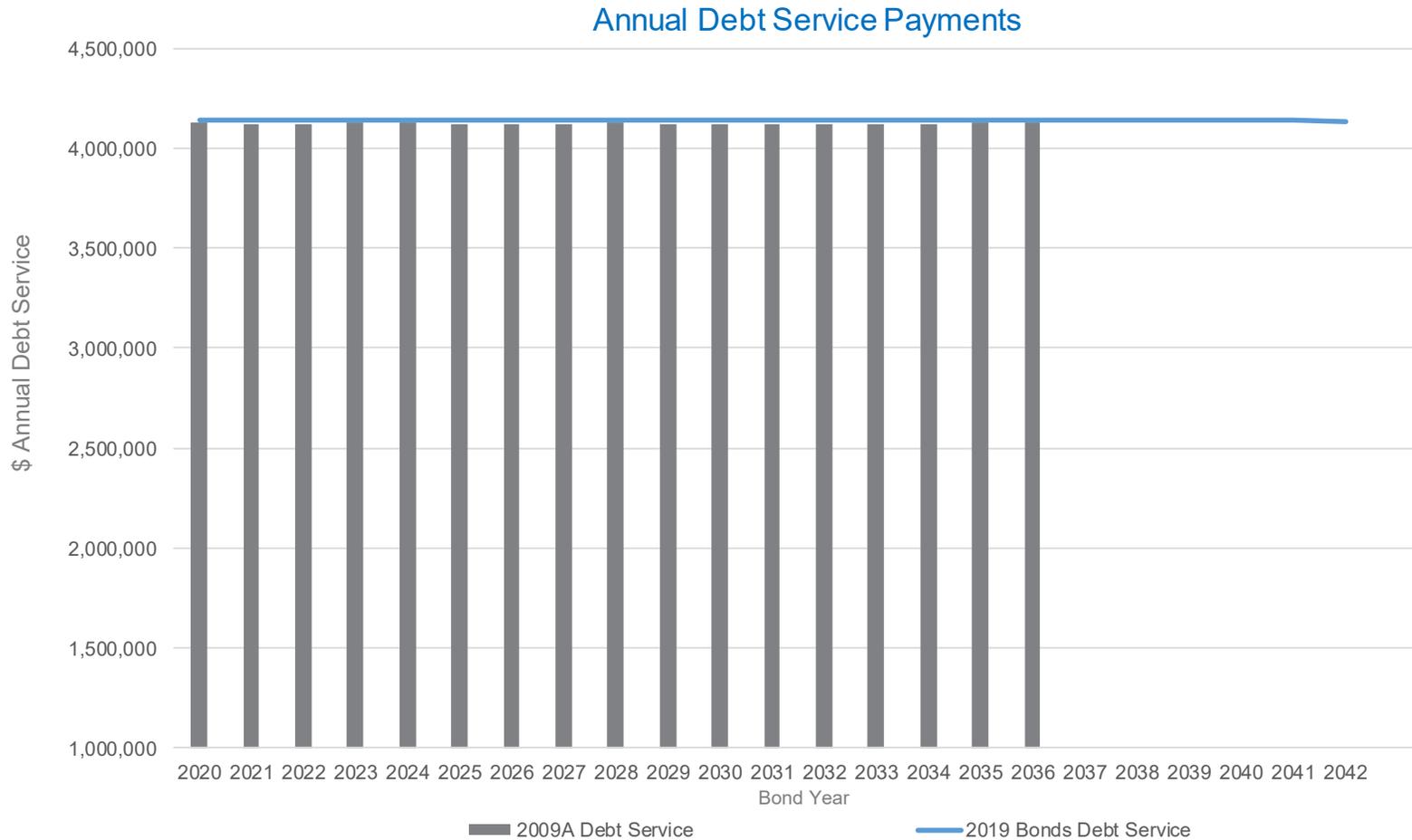
# 2019 Bonds Sources and Uses of Funds\*

	Series 2019A: Refunding	Series 2019B: New Money	Series 2019: Total
<b><u>Sources:</u></b>			
Bond Proceeds:			
Par Amount	\$ 36,505,000	\$ 18,850,000	\$ 55,355,000
Premium	5,792,867	2,717,778	8,510,644
<b>Total Bond Proceeds</b>	<b>42,297,867</b>	<b>21,567,778</b>	<b>63,865,644</b>
2009A Bonds Funds on Hand	6,567,395	-	6,567,395
<b>Total Sources</b>	<b>\$ 48,865,262</b>	<b>\$ 21,567,778</b>	<b>\$ 70,433,040</b>
<b><u>Uses:</u></b>			
Project Fund Deposit	-	20,000,000	20,000,000
Refunding Escrow	45,796,867	-	45,796,867
Debt Service Reserve Fund	2,731,846	1,410,637	4,142,483
Cost of Issuance <sup>1</sup>	195,964	100,714	296,678
Underwriter's Discount	140,584	56,427	197,011
<b>Total Uses</b>	<b>\$ 48,865,262</b>	<b>\$ 21,567,778</b>	<b>\$ 70,433,040</b>

\*Assumes current Authority credit ratings and market conditions as of 4/4/2019, plus 25 bps. Preliminary and subject to change based on tax-exempt interest rate movements.

<sup>1</sup>Estimated Cost of Issuance includes fees for bond counsel, disclosure counsel, rating, municipal advisor, trustee printing, etc. Cost of issuance also includes bond rounding.

# Debt Service Schedules: Status Quo (2009A Bonds) and 2019 Bonds



# Detailed Debt Service Schedules

Status Quo (Series 2009A Bonds)				2019 Bonds *				Debt Service Difference from Status Quo
September 1,	Principal	Interest	Total Debt Service	September 1,	Principal	Interest	Total Debt Service	
2020	1,570,000	2,554,750	4,124,750	2020	875,000	3,267,483	4,142,483	17,733
2021	1,650,000	2,472,325	4,122,325	2021	1,415,000	2,724,000	4,139,000	16,675
2022	1,735,000	2,385,700	4,120,700	2022	1,485,000	2,653,250	4,138,250	17,550
2023	1,830,000	2,294,613	4,124,613	2023	1,560,000	2,579,000	4,139,000	14,388
2024	1,925,000	2,198,538	4,123,538	2024	1,640,000	2,501,000	4,141,000	17,463
2025	2,025,000	2,097,475	4,122,475	2025	1,720,000	2,419,000	4,139,000	16,525
2026	2,150,000	1,970,913	4,120,913	2026	1,805,000	2,333,000	4,138,000	17,088
2027	2,285,000	1,836,538	4,121,538	2027	1,895,000	2,242,750	4,137,750	16,213
2028	2,430,000	1,693,725	4,123,725	2028	1,990,000	2,148,000	4,138,000	14,275
2029	2,580,000	1,541,850	4,121,850	2029	2,090,000	2,048,500	4,138,500	16,650
2030	2,740,000	1,380,600	4,120,600	2030	2,195,000	1,944,000	4,139,000	18,400
2031	2,905,000	1,216,200	4,121,200	2031	2,305,000	1,834,250	4,139,250	18,050
2032	3,080,000	1,041,900	4,121,900	2032	2,420,000	1,719,000	4,139,000	17,100
2033	3,265,000	857,100	4,122,100	2033	2,540,000	1,598,000	4,138,000	15,900
2034	3,460,000	661,200	4,121,200	2034	2,670,000	1,471,000	4,141,000	19,800
2035	3,670,000	453,600	4,123,600	2035	2,800,000	1,337,500	4,137,500	13,900
2036	3,890,000	233,400	4,123,400	2036	2,940,000	1,197,500	4,137,500	14,100
				2037	3,090,000	1,050,500	4,140,500	4,140,500
				2038	3,245,000	896,000	4,141,000	4,141,000
				2039	3,405,000	733,750	4,138,750	4,138,750
				2040	3,575,000	563,500	4,138,500	4,138,500
				2041	3,755,000	384,750	4,139,750	4,139,750
				2042	3,940,000	197,000	4,137,000	4,137,000
	<u>43,190,000</u>	<u>26,890,425</u>	<u>70,080,425</u>		<u>55,355,000</u>	<u>39,842,733</u>	<u>95,197,733</u>	<u>25,117,308</u>

\*Assumes current Authority credit ratings and market conditions as of 4/1/2019, plus 25 bps. Preliminary and subject to change based on tax-exempt interest rate movements.

# Financing Results versus the Status Quo\*

	<u>Status Quo:</u> Series 2009A Bonds	<u>2019 Bonds:</u> Refunding \$20MM Capital
<b>Refunding Present Value Savings:</b>		
Par Amount of Refunded Bonds:	--	\$44,685,000
<b>Percentage Savings of Refunded Bonds<sup>1</sup>:</b>	--	<b>14.307%</b>
<b>Net PV Savings<sup>1</sup>:</b>	--	<b>\$6,393,095</b>
<b>Total Obligations and Debt Service Payments:</b>		
<b>Total Capital Proceeds Raised:</b>	--	<b>\$20,000,000</b>
Estimated Par Amount Outstanding after 2019 Bond Issuance	\$44,685,000	\$55,355,000
<b>Total Debt Service:</b>	<b>\$70,080,425</b>	<b>\$95,197,733</b>
Difference from the Status Quo:		\$25,117,308
Average Annual Debt Service:	\$4,122,378	\$4,139,032
Difference from the Status Quo:		\$16,654
<b>Final Debt Term:</b>	<b>9/1/2036</b>	<b>9/1/2042</b>

\*Assumes current Authority credit ratings and market conditions as of 4/1/2019, plus 25 bps. Preliminary and subject to change based on tax-exempt interest rate movements.

<sup>1</sup>Assuming a refunding of only the 2009 Series A Bonds, estimated Net PV Savings would be \$10,794,614 or 24.16% savings of Refunded Bonds. The lower Net PV Savings values reflects structuring refinements to incorporate the new money issuance and required short-term amortization given average life restrictions.

# Important Next Steps and Financing Approvals

Targeted Date/Meeting	Action Item / Approval
<b>April 11</b> SBWMA Finance Committee	<ul style="list-style-type: none"> <li>• Receive overview of financing documentation and issuance parameters</li> </ul>
<b>April 5</b>	<ul style="list-style-type: none"> <li>• Model staff report and resolution approving the issuance of 2019 Bonds to Member Agencies</li> </ul>
<b>April 25</b> SBWMA Board Meeting	<ul style="list-style-type: none"> <li>• Adopt resolution recommending approval of 2019 Bonds to Member Agencies</li> <li>• Adopt Reimbursement Resolution</li> </ul>
<b>Week of May 6</b> Member Agency Meetings	<ul style="list-style-type: none"> <li>• Adopt resolution to approve the issuance of 2019 Bonds</li> </ul>
<b>Week of May 13</b> Member Agency Meetings	<ul style="list-style-type: none"> <li>• Adopt resolution to approve the issuance of 2019 Bonds</li> </ul>
<b>May 13</b> City of San Carlos Meeting	<ul style="list-style-type: none"> <li>• Hold public hearing as host City and for TEFRA*</li> <li>• Approve JPA financing as host City</li> <li>• Adopt TEFRA* approval</li> <li>• Adopt resolution to approve the issuance of 2019 Bonds</li> </ul>
<b>May 23</b> SBWMA Board Meeting	<ul style="list-style-type: none"> <li>• Adopt resolution authorizing the issuance of 2019 Bonds (subject to not-to-exceed parameters) and approving financing documents (resolution, bond indenture, official statement, purchase contract)</li> </ul>

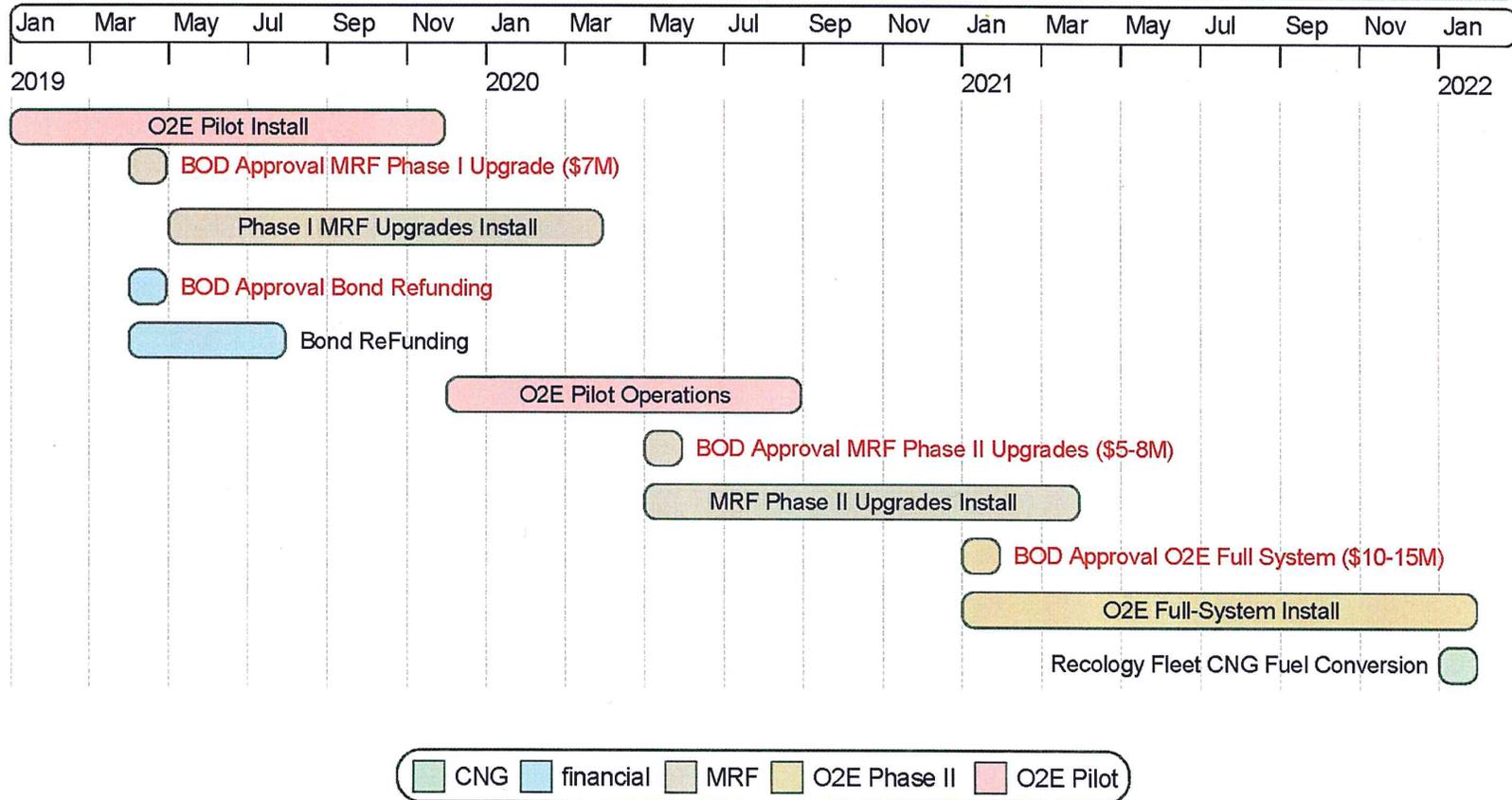
\* A public hearing required by the IRS to be held before the Board can approve the issuance by SBWMA of tax-exempt private activity debt.

# Financing Timeline

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Targeted Date	Action Item
January 2019	<ul style="list-style-type: none"> <li>Assemble financing team (SBWMA, KNN, Bond/Disclosure Counsel, Underwriter, and other parties)</li> </ul>
February 2019 – May 2019	<ul style="list-style-type: none"> <li>SBWMA Board engagements on Plan of Finance approach</li> <li>Develop legal and disclosure documents necessary for issuance</li> </ul>
Week of May 13	<ul style="list-style-type: none"> <li>Rating Agency meetings</li> </ul>
Week of May 27	<ul style="list-style-type: none"> <li>Receive Bond credit ratings</li> <li>Post Preliminary Official Statement</li> <li>Market 2019 Bonds</li> </ul>
Week of June 10	<ul style="list-style-type: none"> <li>Price 2019 Bonds</li> </ul>
Week of June 24	<ul style="list-style-type: none"> <li>Close 2019 Bonds</li> </ul>

# Capital Project Approval & Implementation Schedule



## SBWMA MEMBER CERTIFICATE/OPINION

The following are the forms of certificate and legal opinion requested from each of the Members in connection with the issuance of the Series 2019 Bonds. In financings where a number of different governmental entities are participating, it is customary that each of the entities provide these types of assurances to verify they each have taken all of the necessary legal actions with respect to the agreements they are executing. The certificates and opinions will be dated the date of issuance of the Authority's Solid Waste Enterprise Revenue Bonds, Series 2019 Bonds (the "Series 2019 Bonds"). The certificates and opinions should be delivered into escrow a day or two prior to the date of issuance of the Series 2019 Bonds, but the Members should confirm that they are prepared to deliver the certificates and opinions prior to the posting of the Preliminary Official Statement which occurs two or three weeks earlier. The Members will be given the opportunity to review and comments on the information concerning them in the Preliminary Official Statement prior to posting.

### Member Certificates

Certificates of each Member of the Authority dated the Closing Date substantially to the effect that:

(i) such Member is a general law city or charter city, county, town or district, as applicable, of the State of California, duly organized and existing under the laws of the State of California, having the full power and being qualified to enter into and perform its duties under the Joint Exercise of Powers Agreement originally executed in December 2000, as modified by a First Amended and Restated Joint Exercise of Powers Agreement dated as of December 14, 2005 and a Second Amended and Restated Joint Exercise of Powers Agreement dated as of June 19, 2013 (as amended and restated, the "Authority Agreement") and the [Solid Waste Collection Agreement] between the Member and \_\_\_\_\_, dated \_\_\_\_\_, 2019 (the "Franchise Agreement");

(ii) the Authority Agreement and the Franchise Agreement have been duly authorized, executed and delivered by such Member and, assuming due authorization, execution and delivery by the other parties thereto, the Authority Agreement and the Franchise Agreement constitute legal, valid and binding obligations of such Member, enforceable against such Member in accordance with its respective terms, subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other laws relating to or affecting creditors' rights generally, to the exercise of judicial discretion in appropriate cases, to the limitations on legal remedies against political subdivisions in the State of California and to the application of equitable principles if equitable remedies are sought;

(iii) no action, suit, proceeding, or investigation at law or in equity before or by any court, public board or body is pending in which service of process has been completed, or to our knowledge is threatened against or affecting such Member (a) to restrain or enjoin the performance of the Authority Agreement or the Franchise Agreement; or (b) the payment or collection of revenues from which such Member will pay amounts due under the Authority Agreement; or (c) in any way contesting or materially affecting the validity or enforceability of the Authority Agreement or the Franchise Agreement; or (d) in any way contesting or affecting the existence of such Member or the title of any officer of such Member; or (e) contesting the power of such Member or its authority with respect to the Authority Agreement or the Franchise Agreement; or (f) contesting the completeness or accuracy of the information relating to such Member in the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the information relating to such Member in the Preliminary Official Statement or the Official Statement contained any untrue statement

of a material fact or omitted to state any material fact necessary in order to make the statements made therein, in the light of the circumstances in which they were made, not misleading;

(iv) the performance of the Authority Agreement and the Franchise Agreement and compliance with the provisions on such Member's part contained in the Authority Agreement and the Franchise Agreement will not conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree, loan agreement, indenture, note, resolution, agreement or other instrument to which such Member is a party or is otherwise subject (except that no representation, warranty or agreement is made with respect to any federal or state securities or blue sky laws or regulations), which conflict, breach or default would materially impair the ability of such Member to perform its obligations under the Authority Agreement and the Franchise Agreement;

(v) no authorization, approval, consent or other order of the United States of America, the State of California, or other governmental authority or agency within the State of California having jurisdiction over such Member is required for the performance by such Member of the Authority Agreement or the Franchise Agreement;

(vi) such Member has complied with the applicable notice and protest procedures for all existing rates and charges for solid waste collection services in accordance with the constitutional initiative entitled the "Right to Vote on Taxes Act" ("Proposition 218"), and such Member believes that it is in compliance with the requirements of Proposition 218, and there have been no legal challenges to increases in the rates and charges for solid waste collection services implemented by such Member pursuant to Proposition 218 or otherwise; and

(vii) (a) the information relating to such Member in the Preliminary Official Statement under the captions "\_\_\_\_\_" and "\_\_\_\_\_" did not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances in which they were made, not misleading and (b) the information relating to such Member in the Official Statement under the captions "\_\_\_\_\_" and "\_\_\_\_\_" does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances in which they were made, not misleading. [THE REFERENCED SECTIONS WILL CONTAIN INFORMATION ABOUT THE MEMBER'S WASTE DELIVERY (FRANCHISE) ARRANGEMENTS AND OTHER MEMBER-SPECIFIC MATTERS.]

#### Opinions of Counsels of the Member Agencies.

Opinions of the counsels to each Member of the Authority dated the Closing Date and addressed to the Underwriter of the Series 2019 Bonds substantially to the effect that:

(i) such Member is a general law city or charter city, county, or district, as applicable, of the State of California, duly organized and existing and the laws of the State of California;

(ii) the Authority Agreement and the Franchise Agreement were duly authorized, executed and delivered by such Member and, assuming due authorization, execution and delivery by the other parties thereto, constitute legal, valid and binding obligations of such Member, enforceable against such Member in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other laws relating to or affecting creditors' rights generally, to the exercise of judicial discretion in appropriate cases, to the limitations on legal

remedies against political subdivisions in the State of California and to the application of equitable principles if equitable remedies are sought;

(iii) no action, suit, proceeding, or investigation at law or in equity before or by any court, public board or body is pending in which service of process has been completed, or to our knowledge is threatened against or affecting such Member (a) to restrain or enjoin the performance of the Authority Agreement or the Franchise Agreement; or (b) the payment or collection of revenues from which such Member will pay amounts due under the Authority Agreement; or (c) in any way contesting or materially affecting the validity or enforceability of the Authority Agreement and the Franchise Agreement; or (d) contesting the completeness or accuracy of the information relating to such Member in the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the information relating to such Member in the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact necessary in order to make the statements made therein, in the light of the circumstances in which they were made, not misleading;

(iv) the performance of the Authority Agreement and the Franchise Agreement, and compliance by such Member with the provisions of the Authority Agreement and the Franchise Agreement do not and will not in any material respect conflict with or constitute on the part of such Member a violation or breach of, or constitute a default under (a) any agreement or other instrument to which such Member is a party or by which it is bound and with respect to such conflict, violation, breach or default would materially adversely affect the ability of such Member to perform its obligations under Authority Agreement and the Franchise Agreement or (b) any existing law, regulation, court order or consent decree to which such Member is subject;

(v) no authorization, approval, consent or other order of the United States of America, the State of California, or other governmental authority or agency within the State of California having jurisdiction over such Member is required for the performance by such Member of the Authority Agreement or the Franchise Agreement;

(vi) such Member has complied with the applicable notice and protest procedures for all existing rates and charges for solid waste collection services in accordance with Proposition 218, and such Member believes that it is in compliance with the requirements of Proposition 218 and that it will continue to comply with its covenant to impose rates and charges, including any increases to existing rates and charges, for solid waste collection services within its jurisdiction in conformity with the provisions of Proposition 218, and there have been no legal challenges to increases in the rates and charges for solid waste collection services implemented by such Member pursuant to Proposition 218 or otherwise;

(vii) the information relating to such Member in the Preliminary Official Statement under the captions “ \_\_\_\_\_ ” and “ \_\_\_\_\_ ” did not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances in which they were made, not misleading and (b) the information relating to such Member in the Official Statement under the captions “ \_\_\_\_\_ ” and “ \_\_\_\_\_ ” does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances in which they were made, not misleading. [THE REFERENCED SECTIONS WILL CONTAIN INFORMATION ABOUT THE MEMBER’S WASTE DELIVERY (FRANCHISE) ARRANGEMENTS AND OTHER MEMBER-SPECIFIC MATTERS.]