BEFORE THE METRO COUNCIL

FOR THE PURPOSE OF AMENDING THE FY 2002-03 BUDGET AND APPROPRIATIONS SCHEDULE BY TRANSFERRING $3,500,000 FROM CONTINGENCY TO THE DEBT SERVICE ACCOUNT, AUTHORIZING DEFEASANCE OF CERTAIN SOLID WASTE REVENUE BONDS, AND DECLARING AN EMERGENCY	)	ORDINANCE NO. 03-995 Introduced by: Mark Williams, Chief Operating Officer with the concurrence of David Bragdon, Council President

WHEREAS, the Metro Council has reviewed and considered the need to transfer appropriations within the FY 2002-03 Budget; and,

WHEREAS, the need for the transfer of appropriation has been justified; and,

WHEREAS, adequate funds exist for other identified needs; now, therefore,

THE METRO COUNCIL ORDAINS AS FOLLOWS:

1. That the FY 2002-03 Budget and Schedule of Appropriations are hereby amended as shown in the columns entitled "Revision" of Exhibits A and B to this Ordinance for the purpose of transferring funds from Contingency to the Debt Service Account in the Solid Waste Revenue Fund.

2. That the Chief Operating Officer is authorized to use the amended appropriation to defease the Metro Central Transfer Station Project 1990 Series A Solid Waste Disposal System Revenue Bonds due on July 1, 2003, January 1, 2004 and July 1, 2004; and the Metro Central Transfer Station Project 1993 Series A Solid Waste Disposal System Revenue Bonds due on July 1, 2003 and July 1, 2004.

3. That because this Ordinance is necessary for the immediate preservation of the public health, safety or welfare of the Metro area in order to meet obligations and comply with Oregon Budget Law, an emergency is declared to exist, and this Ordinance takes effect upon passage.

ADOPTED by the Metro Council this 27th day of February, 2003.

David Bragdon, Council President

ATTEST:

Recording Secretary

Approved as to Form:

Daniel B. Cooper, Metro Attorney

Exhibit A
Ordinance No.03-995

ACCT	DESCRIPTION	Current Budget FTE	Current Budget Amount	Revision FTE	Revision Amount	Amended Budget FTE	Amended Budget Amount
Solid Waste Revenue Fund							
	Total Personal Services	**109.15**	**$8,256,217**	**0.00**	**$0**	**109.15**	**$8,256,217**
	Total Materials & Services		**$36,874,939**		**$0**		**$36,874,939**
TOTAL REQUIREMENTS		**109.15**	**$45,131,156**	**0.00**	**$0**	**109.15**	**$45,131,156**
Debt Service Account							
	Debt Service						
Metro Central Financing							
REVBND	*Revenue Bond Payments*						
5630	Revenue Bond Pmts-Principal		983,387		1,402,519		2,385,906
5635	Revenue Bond Payments-Interest		1,680,564		2,097,481		3,778,045
Regional Environmental Management Department							
TOTAL REQUIREMENTS			**$2,663,951**		**$3,500,000**		**$6,163,951**
Landfill Closure Account							
	Total Materials & Services		**$185,000**		**$0**		**$185,000**
	Total Capital Outlay		**$2,561,800**		**$0**		**$2,561,800**
TOTAL REQUIREMENTS			**$2,746,800**		**$0**		**$2,746,800**
Renewal & Replacement Account							
TOTAL REQUIREMENTS			**$2,690,707**		**$0**		**$2,690,707**
General Account							
TOTAL REQUIREMENTS			**$2,341,100**		**$0**		**$2,341,100**
Master Project Account							
TOTAL REQUIREMENTS			**$350,000**		**$0**		**$350,000**
Recycling Business Assistance Account							
	Total Materials & Services		**$1,024,000**		**$0**		**$1,024,000**
	Total Capital Outlay		**$0**		**$0**		**$0**
TOTAL REQUIREMENTS			**$1,024,000**		**$0**		**$1,024,000**
	Total Interfund Transfers		**$4,210,036**		**$0**		**$4,210,036**
	Contingency and Ending Balance						
CONT	*Contingency*						
5999	Contingency						
	* Operating Account (Operating Contingency)		2,299,297		(2,299,297)		0
	* Landfill Closure Account		5,132,847		0		5,132,847
	* Renewal & Replacement Account		4,674,478		(1,200,703)		3,473,775
UNAPP	*Unappropriated Fund Balance*						
	Total Contingency and Ending Balance		**$27,789,558**		**($3,500,000)**		**$24,289,558**
TOTAL REQUIREMENTS		**109.15**	**$88,947,308**	**0.00**	**$0**	**109.15**	**$88,947,308**

Exhibit B
Ordinance No. 03-995
FY 2002-03 SCHEDULE OF APPROPRIATIONS

	Current Appropriation	Revision	Amended Appropriation
SOLID WASTE REVENUE FUND			
Operating Account			
Operating Expenses (PS & M&S)	$45,131,156	$0	$45,131,156
Subtotal	45,131,156	0	45,131,156
Debt Service Account			
Debt Service	2,663,951	3,500,000	6,163,951
Subtotal	2,663,951	3,500,000	6,163,951
Landfill Closure Account			
Materials & Services	185,000	0	185,000
Capital Outlay	2,561,800	0	2,561,800
Subtotal	2,746,800	0	2,746,800
Renewal and Replacement Account			
Capital Outlay	2,690,707	0	2,690,707
Subtotal	2,690,707	0	2,690,707
General Account			
Capital Outlay	2,341,100	0	2,341,100
Subtotal	2,341,100	0	2,341,100
Master Project Account			
Debt Service	350,000	0	350,000
Subtotal	350,000	0	350,000
Recycling Business Assistance Account			
Materials & Services	1,024,000	0	1,024,000
Capital Outlay	0	0	0
Subtotal	1,024,000	0	1,024,000
General Expenses			
Interfund Transfers	4,210,036	0	4,210,036
Contingency	12,106,622	(3,500,000)	8,606,622
Subtotal	16,316,658	(3,500,000)	12,816,658
Unappropriated Balance	15,682,936	0	15,682,936
Total Fund Requirements	**$88,947,308**	**$0**	**$88,947,308**

All Other Appropriations Remain as Previously Adopted

STAFF REPORT

IN CONSIDERATION OF ORDINANCE NO. 03-995 FOR THE PURPOSE OF AMENDING THE FY 2002-03 BUDGET AND APPROPRIATIONS SCHEDULE BY TRANSFERRING $3,500,000 FROM CONTINGENCY TO THE DEBT SERVICE ACCOUNT, AUTHORIZING DEFEASANCE OF CERTAIN SOLID WASTE REVENUE BONDS, AND DECLARING AN EMERGENCY.

Date: February 7, 2003 Prepared by: Douglas Anderson

BACKGROUND

On January 23, 2003, in consultation with Bond Counsel, staff determined that Metro was on a track to violate the Rate Covenant on the Solid Waste Disposal System Revenue Bonds during the current fiscal year. The Rate Covenant states, in relevant part, that:

> At all times, [Metro] shall establish, levy, impose, maintain and collect fees and rates and charges for the use of the services and facilities of the system as shall be required to provide net revenues in each fiscal year which at least equal 110% of the annual debt service....
>
> *Section 702(j) of the Master Bond Ordinance, Metro Ordinance No. 89-319*

The intent of the Rate Covenant is to ensure that Metro will have more than enough revenue, after meeting expenses, to pay the debt service on the bonds. This is a cushion against risk on behalf of the bond holders. The requirement to have revenues at least 10 percent above the debt service is a covenant that Metro made when the bonds were sold. The 110% figure is called the "coverage ratio" and is calculated by dividing net revenue by the amount of the debt service.

Based on current trends of receipts and expenses, staff projects that net revenue will be only 57 percent of the debt service this year. This situation is due entirely to the use of the solid waste fund balance to pay some operating expenses. For purposes of the coverage ratio, the fund balance is not defined as operating revenue. Calculation of the projected coverage ratio is shown in the following table.

FY 2002-03 Net Revenue and Debt Service Coverage

Projections	Amount
Operating Revenue	$47,922,987
less: Operating Expenditures	$46,403,552
equals: Net Operating Revenue	$1,519,435
Debt Service	$2,651,096
Coverage Ratio	*57%*

A similar situation exists for the requested FY 2003-04 budget submitted by the department on November 15, 2002. Calculations based on the requested budget show that next year's coverage ratio would be 8 percent.

Metro has three variables under its control for meeting the coverage ratio: Metro can *increase net revenue* by raising rates and/or reducing expenditures, or *reduce the debt service*. Metro needs net revenue of about $2.9 million to cover 110 percent of the $2,651,096 debt service in the current fiscal year. Based on the figures in the table above, Metro is about $1.4 million shy of this revenue requirement. At this point in the fiscal year, it is not feasible to raise rates, and there is limited scope for reducing expenditures by as much as $1.4 million. Therefore, Metro must consider early retirement of some of its debt in order to have a chance at meeting the coverage this year. Because coverage is projected to be so low for FY 2003-04, the same solution should be considered for next year. The type of early retirement of debt that Metro would have to undertake is technically termed "defeasance" of the bonds.* This ordinance authorizes defeasance of three zero-coupon bonds from the 1990 issue, each with redemption value of $1,070,000; and two bonds from the 1993 series, having principal values of $80,000 and $85,000 respectively. The total of bonds defeased is almost $3.4 million.

On January 30, 2003, Bond Counsel issued a memorandum describing how the coverage calculation is affected when bonds are defeased. His opinion is based on the fact that Metro is required to make monthly deposits toward debt service payments. (Payments are actually remitted twice a year, on January 1 and July 1.) According to Bond Counsel, all monthly deposits that are due before the defeasance date are *included* as debt service in the coverage calculation. Any deposits with due dates after the defeasance are *excluded* from the coverage calculation.

In practical terms, this means that the sooner the defeasance takes place, the less revenue is required to cover the debt service. For example, if Metro defeases the July 2003 bonds in February 2003, then the deposits due for March through June can be excluded from the coverage calculation. If the defeasance occurs in March, then only the April through June deposits can be excluded. The following table shows that about $200,000 of additional net revenue is required to cover each month that the defeasance is delayed this fiscal year.**

Effect of Delay on FY 2002-03 Net Revenue Requirements

Timing of Defeasance	Deposits Excluded from Debt Service	Annual Debt Service	Total Net Revenue Required for Coverage	Expenditure Reduction Required after Defeasance*
February	4	$1,916,845	$2,108,530	$600,000
March	3	$2,100,408	$2,310,449	$800,000
April	2	$2,283,971	$2,512,368	$1.0 million
May	1	$2,467,533	$2,714,286	$1.2 million
No defeasance	0	$2,651,096	$2,916,206	$1.4 million

* Additional reductions that are needed to make up the difference between the net revenue required to meet the 110% coverage and the projected availability of $1.5 million in revenue. See table on page 1.

It is worthy of note that defeasance essentially accelerates the payment of debt service that was scheduled to occur anyway. Therefore, the amount of the defeasance is not an increase in cost to Metro; it simply shifts the timing of payments. However, as will be seen below, this creates an issue for the management of the solid waste reserves. The actual cost of defeasance is estimated to be $12,000 to $25,000 depending on the markets at the time of defeasance. On advice of Metro's Financial Advisor, this ordinance amends the debt service budget by $3.5 million to ensure there is sufficient appropriation to handle any defeasance scenario.

* "Defeasance" means to be relieved of financial and legal requirements of the bonds. In the present case, defeasance would relieve Metro from the legal obligation to cover 110 % of the full annual debt service.

** There is no similar timing issue for FY 2003-04, as long as the bonds are defeased this fiscal year.

ANALYSIS/INFORMATION

1. **Known Opposition.**

   None.

2. **Legal Antecedents.**

   Oregon Revised Statues Section 294.450 provides for transfers of appropriations within a fund if such transfers are authorized by official resolution or ordinance of the local jurisdiction's governing body.

3. **Anticipated Effects:**

   As described in "Background" above, the primary purpose of defeasing the bonds is to reduce the amount of net revenue necessary to meet the debt service coverage requirement. There are different effects for this and next fiscal year:

   FY 2002-03. Defeasance, together with judicious management of expenditures through the end of the current year, should allow Metro to meet the coverage ratio in FY 2002-03. The necessary level of expenditure reduction depends on the timing of the defeasance, as shown in the table on page 2 of this staff report.

   FY 2003-04. Even with defeasance, an increase in net revenue of at least $500,000 is needed in the requested FY 2003-04 budget in order to make coverage next fiscal year. Metro will have debt service of $635,408 even after defeasing the bonds. This remaining debt service is interest on bonds maturing after FY 2003-04 coverage of this debt service requires almost $700,000 in net revenue, versus the $210,000 that is in the budget submitted by the department last November. Hence the need for an increase of $500,00 or more. The net revenue requirement may be achieved with any combination of expenditure reductions or rate increases totaling $500,000 or more, provided that the other budget assumptions hold—in particular, the amount of tonnage realized and the price of fuel.

   An important additional effect in FY 2003-04 is generated by the accelerated payment of debt—namely, the management of the solid waste reserves. As submitted, the department's proposed FY 2003-04 budget is balanced by the use of approximately $3.9 million from the fund balance. However, the majority of funds earmarked for this purpose would instead go toward the defeasance, leaving a significant budgetary shortfall for next year. There are a number of options for managing this situation; for example (a) paying back the reserves over time, (b) reducing expenditures and/or increasing rates in FY 2003-04, or (c) accepting a lower level of reserves. In addition, a "rolling defeasance," in which debt service is paid a year in advance, should be considered. This strategy would significantly reduce the debt service that needs to be covered by operating revenue, and would allow considerable flexibility in the use of reserves to pay operating expenditures over time.

   In any case, the department is on a sufficiently sound financial foundation to proceed with the defeasance at this time and decide on the management of reserves later. The discussion of options should occur during the FY 2003-04 budget hearings scheduled later this Spring.

4. **Budget Impacts.**

   The cost of defeasing the bonds authorized by this ordinance is estimated at $12,000 to $25,000 (the actual cost will depend on the markets at the point of defeasance). Other budget effects have been described throughout this staff report. In summary, this ordinance authorizes the use of approximately $3.4 million from reserves to defease certain solid waste bonds in February or March 2003. This $3.4 million was scheduled to be spent on debt service during the next 16 months, so it is not a "cost" to the agency in that sense. However, the expenditure of these funds *at this point in time* will require a decision on managing expenditures and reserves during FY 2003-04. Some options have been described in "Anticipated Effects" above.

RECOMMENDATION

The Chief Operating Officer recommends approval of Ordinance No. 03-995.

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