Not Adopted

BEFORE THE COUNCIL OF THE
METROPOLITAN SERVICE DISTRICT

FOR THE PURPOSE OF ADOPTING SOLID WASTE DISPOSAL RATE AND FINANCING POLICIES	))))	RESOLUTION NO. 88-878 Introduced by Rena Cusma, Executive Officer

WHEREAS, The Metropolitan Service District is empowered to collect funds to pay costs incident to solid waste disposal in the region; and

WHEREAS, Uniform administration of rates from year to year is desirable for the maintenance of equity among users of the disposal system; and

WHEREAS, Four discrete disposal rate elements (Base Disposal Rate, Regional Transfer Charge, Convenience Charge and User Fee) have been established; and

WHEREAS, It is important and necessary to further define the policies of Metro in establishing contingency funds, reserve accounts and funds for financing long-term capital projects; now, therefore,

BE IT RESOLVED,

That the following rate and financing policies are hereby adopted by the Council of the Metropolitan Service District:

1. All present and future operating costs including overhead and administrative expenses of the Solid Waste Management System shall be paid by current and future revenues of the department. Capital costs with the exception of the St. Johns Landfill Closure shall be amortized over a period not to exceed the life of the capital item, and shall be paid from Solid Waste

Department revenues. St. Johns Landfill closure and repair costs shall be paid out of the St. Johns Closure Reserve Fund.

2. Users of the disposal system shall be divided into two groups or classes, commercial and public, and rates charged for disposal shall be separate. Rates for each shall reflect the relative cost of providing service to each. Within each class rates will be uniform on a region-wide basis.

3. Disposal rates shall be structured such that all users shall pay for the regional solid waste system including closure costs for the St. Johns Landfill.

4. Reserve accounts shall be maintained and funded by solid waste revenues for:

a. Capital Repair and Replacement;
b. Operating;
c. Environmental Insurance; and
d. St. Johns Landfill Closure Costs.

5. Rates and rate increases shall be stabilized over time, based on multi-year forecasts, to provide for predictable and consistent rate adjustments. Ideally, rates shall be adopted to become effective on July 1 each year.

6. Disposal rates shall be structured to provide adequate incentives to conduct feasible source separation programs and to produce feasible high-grade select loads in accordance with the Solid Waste Reduction Program.

7. Notwithstanding any other policy established by this resolution, all monies collected by Metro as service or user fees for solid waste disposal shall be used for activities of Metro

related to solid waste disposal, waste reduction, and related planning, administrative and overhead costs of the District.

ADOPTED by the Council of the Metropolitan Service District this ______ day of ____________________, 1988.

____
Mike Ragsdale, Presiding Officer

DBC/gl
8967C/531
04/06/88

Government Finance Associates, Inc.

1300 S.W. 5th Avenue, Suite 2929
Portland, Oregon 97201
503/222-1405

MEMO

November 14, 1986

TO: Doug Drennen
METRO

FROM: Government Finance Associates, Inc.

SUBJ: Financial Management Policies Related to Debt Management

You have asked us to review the debt management and credit implications of the Financial Management Policies for the Solid Waste Utility and to advise you of any changes or additions which would improve the credit quality in anticipation of the pending bond issue for the WTRC. This memo summarizes our review of the draft policies and includes some specific suggestions for steps which should lead to a successful offering of securities.

BACKGROUND AND INTRODUCTION

With the financing for the WTRC, METRO's Solid Waste Utility will be embarking on a continuing program of revenue bond financing. It is critical for the first revenue bond issue for any utility to be designed to maximize the credit quality (given the obvious constraints faced by any agency), thereby building a positive image in the credit markets which attracts investor interest and produces the lowest possible borrowing cost over the life of the system.

The sale of revenue bonds for a municipal utility is similar in many ways to any other business financing in that the borrower must convince the lender (bond buyers) that the project: 1) is needed, 2) can be developed for the costs estimated, 3) will produce sufficient revenue to meet all operating and maintenance requirements, and 4) ensures that the lenders' interests are adequately secured against possible shortfall or unforeseen financial calamaties.

In the public finance markets, the interests of the bond holders are reflected in the activities of a number of intermediaries:

1) Bond Counsel - to ensure that the issuer has clear authority to issue the debt, and to opine on the tax exempt nature of interest on the securities.

2) Underwriters - to evaluate the credit, value and other features of the borrowing, purchase the bonds from the issuer and "reoffer" interests in the debt to bond buyers.

3) Rating Agencies - to provide a standard set of criteria, consistently applied to evaluate the credit quality and security of a particular debt offering.

The most important single determinant in the credit image of the issue, and therefore in minimizing the borrowing cost, is the rating attached to the issues by the rating agencies. Because the rating agencies provide the most effective means of communicating credit quality to a broad investor market, it is prudent to structure the offering to achieve the highest possible rating for that type of issue and level of security. Thus, this discussion of credit factors will focus on the criteria for revenue bonds as promulgated by the two major municipal credit rating agencies: Moody's Investors Service and Standard and Poors.

However, it is important to note that the standards governing rating agency review follow the market and are simply consonant with the expectations and desires of the majority of investors. Even if METRO decided not to seek a rating on the WTRC issue (or any future issue), its revenue bond issues would need to conform to these features.

STANDARD MUNICIPAL REVENUE BOND CREDIT FEATURES

The municipal market has come to expect a certain set of standard features for revenue bonds which, if present in an issue, will usually ensure a favorable reception (in the form of acceptable borrowing rates). These features will be present in revenue bond issues for many different types of revenue producing facilities along with some features peculiar to the type of enterprise:

* Establishment of a debt service reserve fund equal to the maximum annual debt service over the life of the bond issue.

* Demonstration by the issuer (backed up by a "feasibility" report from a third party expert) that the project is financially feasible.

* Commitment by the issuer to set rates in such a way that net revenues of the utility (before debt service) will be at least 1.2 (and often up to 1.5) times the annual debt service (leaving a cushion of 20 to 50%).

* A pledge of the revenues of the facility to be financed (or the system as a whole) to the debt service.

In addition to these very specific features, municipal bond investors and their representatives will evaluate a number of other, broader factors in evaluating the quality of an issue:

* Commitment to prudent financial management practices on the part of the utility's management

* Proven technical and financial competency (engineering, planning, financial monitoring and reporting)

* Cash or current revenue contribution to the capital program (analogous to the down payment in a private borrowing)

* Demonstrated positive operating history and current results in the form of stable or growing fund balances

* Rate policies and practices which promote a stable, predictable and elastic revenue structure

* Willingness to maintain (or raise) rates in the face of user pressure in order to meet prudent financial objectives. [This has become a critical credit issue for northwest utilities since the WPPSS default]

* Development and use of long-range physical, financial and rate plans which recognize the dynamic nature of the enterprise and the environment within which it operates.

* Maintenance of adequate reserves for capital replacement, risk management, revenue fluctuation, and unforeseen contingencies.

* A favorable economic climate for the demand for services or products provided by the enterprise and a protected or secure competitive position for the facility (in the case of the WTRC -- flow control).

The analysis of the proposed Financial Management Policies which follows is conducted in the context of these general and specific credit factors, with the objective of optimizing the credit quality and capacity of the Solid Waste Utility.

DEBT MANAGEMENT IMPACTS OF FUND BALANCE AND RATE POLICIES

Based on the projections of capital requirements, financial results and financing needs for the next five years, we have reached the following conclusions and recommendations concerning fund balance and rate policies for the Solid Waste Utility:

1) Because the revenues of the utility have experienced considerable volatility over the years, it would be prudent to create a "stabilization" reserve which insulates against wide swings in operating results (and prevents dramatic, unplanned reductions in fund balance which would be a negative credit factor).

   The level of this reserve should be pegged to the volatility of the revenue stream rather than an arbitrary construct. Given that last year's waste flow exceeded the previous year by 22%, it would be appropriate to attempt to reserve a percentage of the annual operating revenues which approaches this level. A goal of reserving 15% of the operating fund is consistent with this recommendation.

2) The bond rating agencies have become increasingly concerned about the ability of municipal enterprises to plan for, manage, and absorb risks. By nature, the Solid Waste Utility is exposed to considerable risk - not all of which is currently provided for by METRO's risk management program. This is particularly true of environmental risk for the operation (and closure) of the St. John's Landfill (and any future landfill).

Prior to issuing revenue bonds, METRO should develop and begin funding a credible plan for managing this risk - including the initial deposits into a risk management reserve.

3) In order to provide for the long term physical and financial viability of the enterprise, provision should be made for the renovation and replacement of the capital assets of the utility. This provision could take the form of ongoing contributions to a "renewal and replacement" fund, and/or a cash contribution to the fund from the existing fund balance.

   The level of this program should, ultimately, reflect the projected needs for capital renovation and replacement over a reasonable period (at least five years).

4) The Solid Waste Utility rate projections indicate that substantial rate increases will be required to meet the financing needs of the capital program over the next few years. In order to demonstrate that the staff and Council will be able (and willing) to increase rates sufficiently to meet these requirements, and also to prevent short term fluctuations in the rates, it would not be prudent to use the fund balance to temporarily lower rates.

   The combination of a declining fund balance, failure to provide for the reserves noted above, and falling rates, would send a very negative signal to bond market participants and almost certainly reduce the rating achievable for the first issue (thereby raising interest cost and rates).

   Given the expected growth of the system, and the commensurate increases in revenue requirements and rates, METRO should consider establishing a practice of projecting rates over the longest practicable period and then providing for consistent, predictable, and gradual rate increases over the forecast period.

   In addition to enhancing METRO's ability to finance its capital program, this approach will also provide a more realistic planning perspective and more predictable costs for the Solid Waste Utility's customers.

5) As noted above, the utility's credit quality and capacity would be enhanced by the contribution of significant portions of the capital program from operating revenues. In other words, by making a down payment. A common method of achieving this objective is by contributing all or a major portion of the required debt service reserve (equalling maximum annual debt service - approximately 10% of the size of the bond issue) from current revenues or balances.

   This technique has the added advantage of reducing the total debt of the system and therefore the annual debt service (which reduces rates over the entire term of the issue).

6) METRO should begin now to plan for the standard requirement of revenue bond issuers that rates will be set to generate revenues

which after subtracting operating expenses, equal at least 1.2 to 1.5 times annual debt service. The common sense translation of this requirement is that the budget for the Solid Waste Utility will always plan on ending a year with a "non-zero balance (in fact a balance which represents 20 to 50% of annual debt service would result if budgets were 100% accurate).

The implications of this requirement for rates is that there will be an additional revenue requirement component beyond the normal operating cost of the utility.

SUMMARY

The recommendations above should not be taken as a criticism of the past practices of the Solid Waste Utility. In fact, the operating results of the utility provide a very solid base for a successful revenue bond program. METRO staff and Council should be aware that these debt management-related procedures and policies are not proposed simply to promote the revenue bond program as an end in itself, but rather to provide for an efficient, equitable and affordable solid waste program over the long term.

The goal of any prudent financing program is to achieve the lowest possible borrowing cost, thereby producing the lowest possible rates over the financing period. These guidelines, if adopted, will serve to achieve this objective for the METRO Solid Waste Utility.

Please feel free to call Mark Gardiner should you have any questions or suggestions regarding this memo.

cc Don Carlson
Rich McConaghy

STAFF REPORT

Agenda Item No. ___________

Meeting Date ______________

CONSIDERATION OF RESOLUTION NO. 88-878 FOR THE PURPOSE OF ADOPTING SOLID WASTE DISPOSAL RATE AND FINANCING POLICIES

Date: February 19, 1988 Presented by: Roosevelt Carter

FACTUAL BACKGROUND AND ANALYSIS

Purpose

To formalize existing policy and clarify Council intent with respect to solid waste rate collection and use. Resolution No. 84-483, adopted August 23, 1984, established: two (2) classes of disposal system users (commercial and public); four (4) disposal rate elements (base disposal rate, Regional Transfer Charge, Convenience Charge and User Fee); and stated the major purposes for which User Fees are to be applied.

At present, Metro sets aside a portion of collected revenues for the purpose of closing the St. Johns Landfill and for final improvements to the landfill after closure. There is also an unfunded Environmental Insurance Reserve ($364,878) account. Resolution No. 84-483 does not formally address either of these funds.

Proposed Resolution

In addition to formally recognizing the above two (2) requirements, this resolution will formally establish reserve accounts for Capital Repair and Replacement, and for Operating. This resolution also addresses the need to stabilize rates and rate increases and to attempt to establish a firm date for future rate changes. Reference the GFA recommendations.

This resolution also addresses the major concern to analyze the feasibility of providing rate incentives to conduct source separation programs and to produce high-grade select loads in accordance with the Solid Waste Reduction Program.

EXECUTIVE OFFICER'S RECOMMENDATION

The Executive Officer recommends adoption of Resolution No. 88-878.

JM/gl
9068C/531
02/19/88

BEFORE THE COUNCIL OF THE
METROPOLITAN SERVICE DISTRICT

FOR THE PURPOSE OF ADOPTING SOLID WASTE DISPOSAL RATE AND FINANCING POLICIES	))))	RESOLUTION NO. 88-878 Introduced by Rena Cusma, Executive Officer

WHEREAS, The Metropolitan Service District is empowered to collect funds to pay costs incident to solid waste disposal in the region; and

WHEREAS, Uniform administration of rates from year to year is desirable for the maintenance of equity among users of the disposal system; and

WHEREAS, Four discrete disposal rate elements (base disposal rate, Regional Transfer Charge, Convenience Charge, User Fee) have been established; and

WHEREAS, It is important and necessary to further define the policies of the Metropolitan Service District in establishing contingency funds, reserve accounts and funds for financing long-term capital projects; and

WHEREAS, Resolution No. 84-483, adopted by the Council of the Metropolitan Service District on August 23, 1984, established previous Council policy on rates but there is a need to clarify and augment the policies established therein; now, therefore,

BE IT RESOLVED,

That the following rate and financing policies are hereby adopted by the Council of the Metropolitan Service District:

1. All present and future operating costs including overhead and administrative expenses of the Solid Waste Management

System shall be paid by current and future revenues of the department. Capital costs with the exception of the St. Johns Landfill closure shall be amortized over a period not to exceed the life of the capital item, and shall be paid from Solid Waste Department revenues. St. Johns Landfill closure and repair costs shall be paid out of the St. Johns Landfill Closure Reserve Fund.

2. Users of the disposal system shall be divided into two groups or classes, commercial and public, and rates charged for disposal shall be separate. Rates for each shall reflect the relative cost of providing service to each. Within each class rates will be uniform on a region-wide basis.

3. Disposal rates shall be structured such that all users shall pay for the regional solid waste system including closure costs for the St. Johns Landfill.

4. Reserve accounts shall be maintained and funded by solid waste revenues for:

a. capital repair and replacement;
b. operating
c. environmental insurance; and
d. St. Johns Landfill closure costs (Final Improvement Fund).

5. Rates and rate increases shall be stabilized over time, based on multi-year forecasts, to provide for predictable and consistent rate adjustments. Ideally, rates shall be adopted to become effective on July 1 each year.

6. Disposal rates shall be structured to provide adequate incentives to conduct feasible source separation programs and to produce feasible high-grade select loads in accordance with the Solid Waste Reduction Program.

7. Notwithstanding any other policy established by this resolution, all monies collected by Metro as service or User Fees for solid waste disposal shall be used for activities of Metro-related to solid waste disposal, waste reduction, and related planning, administrative and overhead costs of the District.

ADOPTED by the Council of the Metropolitan Service District this _______ day of ____________________, 1988.

____
Mike Ragsdale, Presiding Officer

JM/gl
9068C/531
02/19/88

STAFF REPORT

Agenda Item No. 2

Meeting Date April 26, 1988

CONSIDERATION OF RESOLUTION NO. 88- 878 FOR THE PURPOSE OF ADOPTING SOLID WASTE DISPOSAL RATES AND FINANCING

Date: April 8, 1988

Presented by: Roosevelt Carter

FACTUAL BACKGROUND AND ANALYSIS

The purpose of this staff report is to introduce Resolution No. 88- , which is a housekeeping measure that consolidates existing policies that address solid waste financing and rate issues. Policies, formal and informal, considered in the Resolution are foundational in nature, are consistent with recommendations made by Government Finance Associates, Inc. (GFA) in 1986[1], and are necessary for ongoing, responsible management of solid waste finances.

The Resolution states:

1. The Solid Waste Department will pay all its operating costs from current or future revenues of the department. The only exception to this requirement is the capital cost of the upcoming St. Johns Landfill closure. The St. Johns Landfill closure and repair costs will be paid out of a St. Johns Closure Reserve Fund which will be established through passage of this resolution.

2. The disposal system will be divided into two groups or classes, commercial and public, requiring separate disposal charges for each group. The relative cost of providing service is to be reflected in the rates charged to each group and the rates charged will be uniform on a region-wide basis.

3. All users will pay for the regional solid waste system, which includes closure costs for the St. Johns Landfill. Metro's disposal rates will be structured to reflect this requirement.

4. Metro will establish, maintain and fund the following reserve accounts from solid waste revenues:

---

[1]Memo to Solid Waste Department November 14, 1986; Financial Management Policies Related to Debt Management.

a. Capital Repair and Replacement - for the purpose of anticipating and providing for the cost of either repairing or replacing necessary capital items.

b. Operating - for the purpose of providing for any unanticipated shortfalls or interruptions in revenue flow, thus forestalling possible requirements for mid-year rate increases.

c. Environmental Insurance - for the purpose of setting aside monies to deal with any unanticipated costs associated with environmental issues.

d. St. Johns Landfill Closure - for the purpose of setting aside necessary funds to pay for the upcoming closure of the landfill consistent with all applicable federal and state requirements.

e. Debt Service - for the purpose of maintaining sufficient funds to meet any interruptions in required debt repayment schedule.

5. Metro will endeavor to stabilize rates and rate increases over time to provide for consistent and predictable rate adjustments. This measure will greatly aid haulers, franchisees and others by reducing the uncertainty associated with rate increases.

6. Metro will structure its disposal rates to provide incentives for conducting feasible source separation programs, thus producing more high-grade select loads in accordance with the solid waste reduction program. Charitable agencies, other businesses and groups actively engaged in reducing the amount of waste being landfilled would benefit.

7. That Metro will use all monies collected as solid waste disposal service or user fees for activities of Metro related to solid waste disposal, waste reduction, and related planning, administrative and overhead costs of the District. This requirement shall be effective insofar as it does not conflict with any other policy established by this resolution.

Executive Officer's Recommendation

The Executive Officer recommends that the Council adopt this Resolution establishing policies for solid waste disposal rates and financing principals.