



**TO BE PRESENTED AT MARCH 24, 2011
BOARD OF DIRECTOR'S MEETING**

- 5B. UPDATE ON ROLLOUT OF NEW COLLECTION SERVICES EFFECTIVE 1/1/11**
- 5C. UPDATE ON SOUTH BAY RECYCLING START-UP OF SHOREWAY FACILITY OPERATIONS EFFECTIVE 1/1/11**



STAFF REPORT

To: SBWMA Board Members
From: Marshall Moran, Finance Manager
Kevin McCarthy, Executive Director
Date: March 24, 2011 Board of Director's Meeting
Subject: Update on Bond Proforma Key Financial Metrics and Cash Reserves

Recommendation

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

Analysis

Staff has conducted a thorough review of the final bond proforma (dated 8/24/09) projected Shoreway operating (financial) results for calendar years 2010 and 2011. We reviewed the following information below to project 2011 results:

- The calendar year 2010 unaudited Financial Statement from Maze & Associates
- 2010 Shoreway facility rate application report from HF&H
- SBR 2011 rate application report
- Allied Waste revenue and tonnage data through December 2010
- Projected disposal and processing volume and rates for 2011
- Commodity pricing from Smurfit through February 2011
- Other known changes such as the termination of interim operations at Shoreway as masterplan capital improvements are completed

VARIANCE EXPLANATIONS TO THE FINAL BOND PROFORMA:

2010 ACTUALS VS. 8/24/09 BOND PROFORMA (Table 1)

Revenue Variance <\$318,000>

- Lower public volume partially offset by higher franchise volume

Operating Expense \$1,065,000 (better)

- Lower payments to Allied Waste for operating expense. Payment is made on a per ton basis and the Transfer Station volume was lower than forecast
- Lower off-site processing expense to Smurfit on lower volume and a lower rate than estimated

2011 REVISED PROJECTION VS. 8/24/09 BOND PROFORMA (Table 2)

Revenue Variance <\$955,000>

- Lower public volume partially offset by higher franchise volume
- Lower franchise tip fee
- Higher commodity prices
- Additional HHW and other miscellaneous revenue

Operating Expense <\$852,000>

- Lower SBR Operating expense
- Higher expense to Smurfit for longer off-site MRF processing period
- Unplanned additional payments to Allied for Balancing Account

Other Expense <\$627,800>

- New HHW program and higher insurance expense on new capital improvements

ENDING RESERVE BALANCES (2010-2011) (Table 3)

- The beginning reserve balance in 2010 is \$1.5 million higher than projected:
 - Working capital from bond proceeds in 2009 - \$1.2M - the bond proforma had it in 2010.
- The ending reserve balance in 2010 is \$1.8 million higher than projected
 - Lower operating loss (\$1,107,000)
 - Planned miscellaneous capital spending not spent (\$808,000)
- The ending reserve balance in 2011 is projected to be \$2.5M lower than projected
 - Lower operating profit (\$2,535,000)

Note:

1. The bond proforma has been restated for Allied's Balancing account payments for prior years that had been shown as an adjustment to reserves but, to be consistent with financial statements, are now shown as operating expense.

2. The 2010 results exclude certain non-cash transactions included in the Calendar Year Financial Statements, Agenda Item 3E, such as loss on abandoned assets and GASB 31 investment value adjustment.

Background

On July 23, 2009 the Board approved a resolution authorizing the issuance of solid waste enterprise revenue bonds Series 2009A (tax-exempt) and Series 2009B (taxable). Staff committed that after the bond sale quarterly updates would be provided on actual financial performance as compared to bond proforma projections.

Fiscal Impact

There is no fiscal impact associated with this item.

Attachments:

A – Variance Analysis of March 2011 Projections for Calendar Years 2010 and 2011 vs. Final 2009 Bond Proforma

Attachment A

Variance to Final Bond Proforma (August 2009)

<u>Table 1</u>	2010 Calendar Year		
	Original Bond Proforma	Current Projection	Variance to Bond Original Proforma
Operating Revenue	38,176,565	37,858,573	B / <W> (317,993)
Operating Expense			
Operating Expense	33,274,561	32,209,473	1,065,088
Other Expense	4,931,500	4,502,701	428,799
Interest Expense, net	3,065,167	3,134,403	(69,236)
Total Expense	41,271,228	39,846,577	1,424,651
Net Surplus / Shortfall	(3,094,663)	(1,988,005)	1,106,658
Capitalized Interest	3,019,452	3,019,452	0
Net Income for Bond Test	(75,211)	1,031,447	1,106,659
Debt Coverage Test	n/a	n/a	
Reserve Balance	5,733,300	7,531,267	1,797,967

Note: excludes Working Capital Transfer in bond proforma due to timing issue

<u>Table 2</u>	2011 Calendar Year		
	Original Bond Proforma	Current Projection	Variance to Bond Original Proforma
Operating Revenue	42,199,750	41,244,696	B / <W> (955,054)
Operating Expense			
Operating Expense	30,029,745	30,882,158	(852,413)
Other Expense	5,011,500	5,639,256	(627,756)
Interest Expense, net	3,028,467	3,128,985	(100,518)
Total Expense	38,069,712	39,650,399	(1,580,687)
Net Surplus / Shortfall	4,130,038	1,594,297	(2,535,741)
Capitalized Interest	1,513,931	1,513,931	(0)
Net Income	5,643,970	3,108,228	(2,535,742)
Debt Coverage Test	2.59	1.92	(0.67)
Reserve Balance	11,066,969	8,603,532	(2,463,437)

SBWMA RESERVE BALANCES

Table 3

	CALENDAR 2010 Actual	CALENDAR 2011 Projection	
UNRESTRICTED:			
OPERATING RESERVE (10% of total expense)	\$ 3,671,217	\$ 3,652,141	
EQUIPMENT (ANNUAL - start in 2012)			
RATE STABILIZATON (10% of expense)	\$ 2,174,087	\$ 3,652,141	
UNDESIGNATED	\$ (0)	\$ 481,142	
SUBTOTAL UNRESTRICTED GENERAL RESERVES	\$ 5,845,304	\$ 7,785,425	
REVENUE TRANSFER FOR BOND COVENANT	\$ -	\$ -	
TOTAL UNCOMMITTED RESERVES	\$ 5,845,304	\$ 7,785,425	
Note: Revenue Transfers are non-cash transactions for bond reporting purposes			
COMMITTED:			
MASTER PLAN INTERNAL CAPITAL SPENDING	\$ 1,685,963		committed funds
BURLINGAME BOND REPAYMENT FUND		\$ 818,107	\$3M due 9/1/2014 (3.7 yrs)
TOTAL GENERAL RESERVES	\$ 7,531,267	\$ 8,603,532	
<i>proof</i>	\$ 7,531,267	\$ 8,603,532	
SHOREWAY REMEDIATION PROJECT	\$ 1,455,500	\$ 1,305,500	10 year spending project
BOND PROCEEDS			
	Calender 2010	Calender 2011	
Project Funds	\$ 9,716,679	\$ -	amount per bank stmt 12/10
Debt Service Reserve Fund (not included in General	\$ 4,160,216	\$ 4,210,216	required reserve for bond payment
Capitalized Interest	\$ 1,520,491	\$ -	
TOTAL BOND FUNDS	\$ 15,397,386	\$ 4,210,216	

Shoreway Operations

Financial Detail - 2010 - 2011

<i>estimate</i>	Calendar Year	
	2010	2011 Actual Projection
Operating Revenue		
Franchise Revenue	22,904,045	24,360,776
Public Revenue	5,668,453	5,313,209
Commodity Material Sales	8,971,000	12,186,000
Commodity Revenue Sharing		(1,077,931)
HHW Program	213,039	392,642
Other Revenue	102,035	70,000
Total Operating Revenue	37,858,573	41,244,696
Operating Expenses		
SBR Operating Cost		12,226,952
SBR Interim Operation Cost		898,776
SBR Interest Expense		308,120
SBR Startup Cost		290,498
Subtotal SBR Cost	-	13,724,346
Allied Operating Cost	13,960,594	
Allied 2008 Adjustment	579,048	20,952
Allied 2009 Adjustment		1,341,723
Allied 2010 Adjustment	(922,168)	217,889
Off-site Processing to Smurfit	5,299,593	1,474,913
Disposal Expense	11,988,630	12,778,121
Buyback Payments	1,303,776	963,714
Maintenance		240,500
Shoreway Offsite Parking		120,000
Total Operating Cost	32,209,473	30,882,158
SBWMA Operating Budget	2,900,000	3,491,850
HHW Program	213,039	392,642
Tax, Permit & Insurance	147,082	341,764
Franchise Fee	1,242,580	1,413,000
Total Other Costs	4,502,701	5,639,256
Total Expense	36,712,174	36,521,414
	1,146,398	-
Non-Operating		
Interest Income < >	(43,497)	(48,877)
Interest Expense	3,177,900	3,177,862
Subtotal	3,134,403	3,128,985
Net Operating Surplus / Shortfall	\$ (1,988,005)	\$ 1,594,297
Capitalized Interest	3,019,452	1,513,931
Net Income	1,031,447	3,108,228
Revenue Transfers In	-	-
Net Income for Bond Test	\$ 1,031,447	\$ 3,108,228
Bond Covenant		
Break Even 1	1.00	1.04
Debt Coverage 2	n/a	1.92
<i>Year Financial Statements such as GASB31 adjustment, loss on Abandoned Assets at Shoreway</i>		
1 Required to be 1.0 or greater		
2 Required to be 1.4 or greater		