

THE BOARD OF SUPERVISORS OF THE COUNTY OF STANISLAUS
ACTION AGENDA SUMMARY

DEPT: Environmental Resources *SJA*

BOARD AGENDA # *B-4

Urgent Routine

AGENDA DATE August 5, 2008

CEO Concurs with Recommendation YES NO
ent
(Information Attached)

4/5 Vote Required YES NO

SUBJECT:

Approval to Increase Appropriations in the Waste-to-Energy Fund for the Early Redemption of Series 2000 Refunding Revenue Certificates

STAFF RECOMMENDATIONS:

Direct the Auditor-Controller to increase appropriations in the amount of \$11,777,000 as detailed in the attached Budget Journal.

FISCAL IMPACT:

There are sufficient funds in the Waste-to-Energy Fund account to offset the recommended appropriation. If approved, funds will be utilized as follows for the early redemption of the Waste-to-Energy Project's Series 2000 Refunding Revenue Certificates (i.e., the "Bonds"):

(Continued on next page)

BOARD ACTION AS FOLLOWS:

No. 2008-569

On motion of Supervisor Monteith, Seconded by Supervisor O'Brien
and approved by the following vote,

Ayes: Supervisors: O'Brien, Grover, Monteith, DeMartini and Chairman Mayfield

Noes: Supervisors: None

Excused or Absent: Supervisors: None

Abstaining: Supervisor: None

1) X Approved as recommended

2) _____ Denied

3) _____ Approved as amended

4) _____ Other:

MOTION:

Christine Ferraro

ATTEST: CHRISTINE FERRARO TALLMAN, Clerk

File No.

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FISCAL IMPACT: (Continued)

Bonds Redemption Amount	
Outstanding Amount	\$21,255,000
Less Debt Service Reserve Fund	-\$5,878,000
Less Investment (monthly principal amounts thru 6/30/08)	<u>-\$3,600,000</u>
Total funds needed to pay-off	\$11,777,000
Waste-to-Energy Fund Balance	
Balance on 6/30/08	\$25,126,883
Less total funds needed to pay-off	<u>-\$11,777,000</u>
Estimated Balance after pay-off	\$13,349,883

DISCUSSION:

In the mid-1980's, Stanislaus County chose to incorporate waste-to-energy (WTE) technology into it's suite of waste management strategies in an effort to minimize reliance upon landfill disposal. Following a Request for Proposals process, a bidder for the WTE project ("Project") was selected and financing was sought.

The original financing method used was Industrial Revenue Bonds that were refinanced in 1990 to tax exempt Certificates of Participation. During a refinancing opportunity in February 2000, the fixed rate Certificates were refunded as Series 2000 Certificates (par \$58,780,000), tax-exempt variable rate revenue bonds ("Bonds"). The current remaining amount of the Bonds is \$21,255,000. Municipal Bond Insurance Association (MBIA) is the insurer of the Bonds and Lehman Brothers is the remarketing agent. The interest rate on the Bonds is reset weekly by Lehman Brothers. Since the issuance of the Bonds in February 2000, and until January 2008, the Bonds had been remarketed at variable interest rates lower than if the Bonds had been under a fixed interest rate structure. Throughout this period, these low rates have resulted in significant savings to the project.

In recent weeks, following a downgrade of MBIA by the rating agencies, the interest rates on the Bonds have been extremely volatile, and remarketing had proven to be difficult. Following these concerns and the fact that interest rates increased significantly over the projection (5%) used in the Fiscal Year 2008-2009 Waste-to-Energy Fund Proposed Budget, staff engaged the Project's financial consultant, Kelling, Northcross & Nobriga (KNN), to evaluate the economic impacts of redeeming the Bonds.

According to KNN's analysis, remarketing of the Bonds will continue to be difficult, as MBIA's rating is not expected to improve. If we take no action and the rates remain at the current 10% level until January 1, 2010 (final maturity of the Bonds), the cost of interest will be approximately \$2.3 million. If we take no action and the remarketing rate averages at a lower level of 6.75% until January 1, 2010, then the cost of interest will be approximately \$1.5 million.

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The interest earnings of the cash in the Waste-to-Energy Fund reduces this cost, however, the earnings interest rate is not expected to change significantly. Therefore, the overall result will be a significant increase in interest costs. While the fund balance will have sufficient funds to pay for the increased interest costs through the final maturity of the Bonds, redeeming the Bonds early will result in a savings of approximately \$1.5 million at the 10% level. At the lower interest rate level of 6.75%, the savings will be approximately \$770,000. Overall, if the interest rates on the Bonds remain above the earnings rate on the cash in the Waste-to-Energy Fund, redeeming the Bonds will result in a savings.

KNN advised that since there are sufficient funds available in the Waste-to-Energy Fund account, the better approach would be to pay off the Bonds and benefit from the interest savings given the short remaining term of the Bonds. Consequently, on July 10, 2008, the Stanislaus Waste-to-Energy Financing Agency approved the early redemption of the Bonds. Correspondingly, the Solid Waste-to-Energy Executive Committee recommended an increase in appropriations of \$11,777,000 in the Fiscal Year 2008-2009 Waste-to-Energy Fund Budget for the early redemption of the Bonds.

If the Board of Supervisors approves this appropriations increase, staff will proceed with the early redemption of the Bonds. City of Modesto staff will submit a similar recommendation for consideration by the Modesto City Council on August 5, 2008. Payoff funds will be transferred to Bank of New York, the trustee of the indenture, on August 6, 2008. Allowing for the legal prior notice and prepayment time frames specified in the indenture, Bank of New York should be able to complete the redemption of the Bonds 91 days after the receipt of the payoff funds.

POLICY ISSUE:

The Stanislaus Waste-to-Energy Financing Agency has the authority to approve the early redemption of the Bonds. The Board of Supervisors should determine if increasing appropriations in the Waste-to-Energy fund for the early redemption of the Bonds is consistent with the Board's priorities of a safe community, a healthy community, and the efficient delivery of public services.

STAFFING IMPACT:

There is no staffing impact associated with this request.

