



STAFF REPORT

To: SBWMA Board Members
From: Brian Ponty, Board Member and Financing Manager
 Kevin McCarthy, Executive Director
Date: April 23, 2009 Board Meeting
Subject: Report on Shoreway Masterplan Plan of Finance Options

Recommendation

This is an informational report and no action is necessary. This staff report serves as an update to the information shared at Board study session held on April 6, 2009.

Background

On April 6, 2009 a Board study session was held to review the mechanics of fixed rate bonds and variable rate debt bonds (VRDB), the pros and cons of each type of bond structure and compare the relative estimated costs of three financing plan scenarios under consideration. Key assumptions were shared and discussed for each of three scenarios and can be summarized as follows:

	<u>100% Fixed Rate Bonds</u>	<u>70% Fixed 30% Variable</u>	<u>100% Variable Rate Bonds</u>
Estimated Cost of Funds	6.75%	6.30%	5.25%
Estimated Annual Debt Service	\$5,490,000	\$5,270,000	\$4,760,000
Debt Service Savings Over Fixed Rate	N/A	\$220,000	\$730,000
Estimated Rate Impact	4.40%	4.10%	3.57%
Estimated 2015 Reserve Balance*	\$14,345,000	\$16,195,000	\$19,965,000
Reserve Increase Over Fixed Rate	N/A	\$1,850,000	\$5,620,000
Equipment Replacement Reserve	\$5,386,000	\$5,386,000	\$5,386,000

*Reserve balance exclusive of equipment reserve; essentially represents free cash flow available for an operating reserve, rate stabilization reserve, facility maintenance, etc.

It was noted and discussed that VRDBs require additional credit support in the form of a letter of credit (LOC). As a direct consequence of the auction rate securities market failure last spring and the credit market meltdown last fall, LOCs have become very difficult to obtain and quite expensive. The SBWMA financing team has submitted credit requests to seven banks. Four have declined and three are still processing our request. Two of the three still reviewing our credit, Comerica and Union Bank, have told us they will submit a joint proposal if our credit passes their review.

It was further noted that in addition to exploring VRDBs, the financing team had previously explored bond anticipation notes (BANs). BANs followed by long term bonds entail two bond issuances. Because the amount of bonds required to implement this strategy exceeds the \$65.455 million bond authorization approved by member agencies, this alternative was rejected.

Another key piece of background information shared was that the economic stimulus legislation passed in February 2009 included a provision that removed the imposition of an alternative minimum tax (AMT) calculation on the interest paid on exempt facility private activity bonds such as those to be issued by the SBWMA. The AMT exemption applies only to bonds issued in 2009 and 2010. This provided significant interest rate relief, reducing our estimated cost of funds on long term bonds

from 8% to approximately 6.75%. Bank of America Securities, our bond underwriter, stated that current fixed rates are at or about 6.5%.

Finally, staff distributed and reviewed a document that addressed Frequently Asked Questions for the April 6th Staff Report on Plan of Finance Options. The document addressed such questions as the assumptions behind the VRDB interest rates, the mechanics of converting variable rate debt to fixed debt, the project schedule and deadlines needed to obtain a LOC, debt service coverage ratios, and the impact of the facility operator decision on the cash flow projections. Some of the key data from that document is as follows:

- Our debt coverage during construction in 2009 and 2010 is relatively weak. Our coverage in 2011 and beyond is fairly strong. Because we have capitalized interest for 2009 and 2010, we should not be unduly penalized in our rating for our coverage in these years, and should be able to maintain our current rating of A-. The banks still reviewing our credit have not told us that coverage is a problem.

The debt service coverage ratios for the first five years of the bond cash flows for each scenario are as follows:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Fixed Rate @ 6.75%:	1.47	1.42	2.23	2.00	2.13
VRDB @ 5.25%:	1.91	1.71	2.90	2.31	2.45
Hybrid (70% fixed, 30% variable):	1.56	1.56	2.39	2.09	2.22

- If the SBWMA Board approves the Selection Committee recommendation of South Bay Recycling this will produce lower operating costs resulting in greater net revenue (beginning in 2011) producing improved debt coverage ratios. This also means improved reserve balances. The figures below show the changes in debt ratio coverage and reserve balances for the fixed rate bond scenario:

Debt Coverage Ratio

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Current: Fixed Rate @ 6.75%:	1.47	1.42	2.23	2.00	2.13
W/ South Bay as operator:	1.47	1.42	2.47	2.20	2.33

Ending Available Reserve Balance

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Current: Fixed Rate @ 6.75%:	No change		\$3,424,061	\$5,770,544	\$8,712,826
W/ South Bay as operator:	No change		\$4,478,061	\$7,899,544	\$11,935,826

If you assumed the current debt coverage ratios as in the current proforma, but with South Bay Recycling as the operator, it would result in a \$3 per ton reduction in all projected tipping fee increases for 2011 forward.

Analysis

As a follow-up to the April 6th study session there were a number of key questions and items to be addressed related to the three financing scenarios and other new ideas introduced as follows:

- What is the impact of delays in implementing the Shoreway masterplan?
- What is the “call premium” for shortening the typical 10-year call period associated with fixed rate bonds? Can the financing team model updated cash flows to reflect a shorter call period for fixed rate bonds?
- Is legislative approval (i.e., the individual member agency elected bodies) required for the conversion of variable rate debt to fixed rate debt if the SBWMA pursues the hybrid or 100% VRDB scenarios?
- Can the financing team model updated cash flows for variable debt options assuming conversion of some or all of the variable rate debt to fixed rate? The cash flows should show potential additional cash flows generated from utilizing variable rate debt for a short period of time with the additional revenue captured in a rate stabilization fund.
- Can agencies use their own free cash flow to loan money (“Member Agency loan” scenario per Board Member Nava) at market rates to the SBWMA to replace some or all of the planned new debt?

Each of these key questions and items is addressed below in detail.

Impacts of Delay in Shoreway Masterplan

The current Phase 2 construction schedule for completion of the MRF and transfer station improvements reflects a four month and twelve month delay, respectively, in completion compared to the original schedule shared as part of the June 2008 Board approval of bond issuance. More specifically, the schedule, assuming July 23rd Phase 2 construction award, indicates that the MRF building will be ready for installation of the single stream equipment in August 2010, the major transfer station work will be complete by April 2011 and final completion (landscape, punch list and close-out) will be in June 2011. The original schedule and the Facility Operations RFP provided for six months to install, shakedown, and test the single stream equipment.

So what’s the impact of these construction delays? The current schedule will not allow us to meet our contractual obligations as outlined in the Facility Operations RFP and draft Operations Agreement; we will not be able to provide the operational scope of services that is assumed in the price proposals from the two short-listed facility operators effective January 1, 2011. This means facility operational cost savings, reduced disposal costs, and increased commodity revenues will be deferred beyond the assumed January 1, 2011 new contract start.

Attachment 1 provides a snapshot of the financial benefits of implementing the masterplan improvements as compared to a “status quo” scenario of not implementing such improvements. It’s extremely important to note the “status quo” scenario will still require significant capital improvements at Shoreway including replacing the existing dual stream processing equipment, new transfer station roof, MRF foundation work for any new equipment, seismic upgrades , etc. We have estimated these capital improvements at \$20 million, including the Phase 1 traffic improvements.

The attached analysis shows the masterplan improvements will yield \$64.8 million in net savings over the 25 year life of the bonds or \$31.8 million in net present value savings assuming the Hudson Baylor Corp. operational costs. These savings are \$103.5 million and \$51.6 million using the South Bay Recycling operational costs. The analysis uses an assumed 6.75% interest rate for both the status

quo scenario vs. the Shoreway masterplan scenario. Using lower interest rates (e.g., associated with the hybrid financing option) will result in greater net savings. Both scenarios also assume the existing debt is paid off in 2009.

How will staff manage the project delays in terms of how it impacts the future Shoreway operator? Once a facility operator is selected, staff will negotiate a draft Operating Agreement that reflects a phased in scope of services consistent with the delivery (i.e., finished construction) of facility improvements. While the projected net savings shown in **Attachment 1** won't be fully realized due to project delays, there still can be substantial savings realized if no further project delays occur. For example, the revised project schedule may still allow for start-up of the new MRF single stream operations close to the original January 1, 2011 deadline. Staff will pursue the above contract negotiation approach unless otherwise directed by the Board.

Finally, if we experience further project delays resulting from the delayed Board approval of a final plan of finance, which will also require subsequent approval by the three member agencies (i.e., Belmont, Hillsborough, and Menlo Park), the Phase 2 construction bids will have to be thrown out. The Board must act by July 23rd for the construction bid pricing to still be valid.

Call Premium for Shortening Typical 10-Year Call Period for Fixed Rate Debt

Municipal bonds are typically structured with an initial period of time during which the bonds may not be optionally redeemed by the issuer ("call protection"). In the current market, call protection extends for the first ten years, after which bonds may be optionally redeemed at their par value. Bank of America Securities (BAS) estimates that shortening call protection to 5 years would add approximately .25% to our interest cost. Shortening call protection to 3 years would likely add another .05%.

Structuring bonds with optional early redemption to take advantage of potentially lower future interest rates has several collateral repercussions, including the introduction of the AMT premium, credit spread uncertainty, and interest rate uncertainty. Each of the factors along with details on the shortened call period analysis is further discussed in **Attachment 2**.

The analysis essentially focused on a key question of does it make sense to pay an interest rate premium for the right to refund our bonds early? To answer this question staff compared a bond sale conducted today with a 10-year call vs. a bond sale conducted today with a 5-year call, and subsequently refunded in the fifth year at some assumed interest rate, and discount the cash flows back to today.

We evaluated three different options:

- 1) 100% fixed rate bonds
- 2) 70% fixed/30% variable hybrid with the variable portion converted to fixed rate after 5 years and the fixed portion refunded after 5 years
- 3) 70% fixed/30% variable hybrid with the variable portion converted to fixed rate after 3 years and the fixed portion refunded after 3 years

General Conclusions

Buying shorter call protection – If all of the bonds are structured as fixed rate, shortening the call protection to 5 years requires the Bond Buyer 25-Bond Revenue Bond Index (BBRBI) to drop approximately 70 basis points to 5.03% from its present level of 5.74% to achieve NPV savings of 3%

over selling bonds with 10 year call protection. There have been several periods over the past decade when the BBRBI was below 5%, the longest in 2007 through the first half of 2008. It is not unreasonable to believe that the BBRBI will dip below 5% in the future, but for the purchase of this prepayment option to, *ex post*, have made economic sense, our window of opportunity is rather brief, probably no more than 3 years running from year 5 through year 8. After that it becomes increasingly more difficult for us to say we made the right decision.

Conversion/Refunding After Three or Five Years – The hurdle rate analysis is substantially similar to the 100% fixed rate bond structure, and for the fixed rate portion, the conclusion is the same. We have a very small window in which to execute a refunding. The window is a bit larger with a 3-year call structure. Converting the variable rate bonds to a fixed rate can be done at any time, with no prepayment premium. But making the decision to convert to a fixed rate may prove to be quite difficult. If interest rates remain low for variable rate bonds the SBWMA may be reluctant to exchange those savings for the greater certainty of a higher fixed rate, even if that fixed rate is low by historical standards. But when short term rates are high, long term rates will be even higher, and the decision to convert to a fixed rate will be even more difficult.

Legislative Approval for Conversion of Variable Rate Debt to Fixed Debt

Is legislative approval (i.e., the individual member agency elected bodies) required for the conversion of variable debt to fixed rate debt if the SBWMA pursues the hybrid or 100% VRDB scenarios? Bob Lanzone, our Legal Counsel, has reviewed Resolution 2008-04 and believes that any refinancing of our debt is subject to Board and member agency approval. Resolution 2008-04 was the Board's June 26th approval of the issuance of new debt for financing the Shoreway masterplan improvements.

Update Variable Rate Debt Cash Flows to Reflect Scenario of Converting to Fixed Rate Debt

These cash flows are shown in **Attachments 2 and 3**.

Member Agency Loan Scenario

Attachment 4 is a summary memo on this scenario with key questions noted that need to be addressed so the Financing Team can fully analyze the option. The questions posed in the attached memo were provided to Board Member Nava on Tuesday, April 14th.

Plan of Finance Schedule

Bond financings take approximately three months to document, sell and close. The following table shows the milestone events leading to a sale. In order to close a bond sale by September 1, the structure must be selected and documentation must begin by the end of May.

<u>Date</u>	<u>Activity</u>
April 22	Construction bids due. Was previously April 16 th but was extended due to extensive RFIs and requests from several general contractors for a delay. The bid addendum extending the deadline also extended the pricing period from 90 days to 93 days; this means the pricing in the construction bids are valid through July 24 th .
April 23	Board selects operator.

May 4th	Deadline for banks to submit Letter of Interest re: extending an LOC to the SBWMA. This deadline was previously April 17 th , but was extended to allow for the financing team to update cash flows reflecting Phase 2 bid results and the Shoreway operator decision.
May 14 th	Special Board meeting to select preferred plan of finance option.
May – July	Financing team documents bonds and obtains ratings; additional member agency bond structure reviews and direction to Board representatives.
July 23	SBWMA Board approves bond documents and bond issuance.
August 4	Sell bonds.
August 19	Close bonds.

Attachments

- 1 -- Analysis of Net Financial Benefits of Shoreway Masterplan vs. Maintaining Existing Dual Stream MRF at Shoreway
- 2 -- Analysis of Buying Shorter Call Period
- 3 -- Supporting Tables for Early Call Analysis
- 4 -- Member Agency Loan Scenario

ATTACHMENT 1 ANALYSIS OF NET FINANCIAL BENEFITS

SBWMA: Analysis of Net Financial Benefit (over 25 years) of Shoreway Masterplan vs. Maintaining existing Dual Stream MRF at Shoreway												
	BOND FINANCING					OPERATIONS - HUDSON				NET SAVINGS		
	MASTER PLAN PROJECT NEW BOND - 2009			"STATUS QUO" RETROFIT BOND¹		VARIANCE		Operational Benefits of Master Plan Project				
	<u>Principal</u>	<u>Avg. Interest & Fees</u>	<u>Total Bond Payment</u>	<u>Total Bond Payment</u>		<u>Incremental Bond Payment</u>		<u>Ops Savings</u>	<u>Disposal</u>		<u>New Commodity Revenue, Net</u>	<u>Operational Savings</u>
		6.75%		6.75%				3.0%	3.0%		1.0%	
2009							<i>Annual escalators above</i>					
2010				\$1,851,334								
2011	1,072,605	4,418,213	5,490,818	1,851,334	3,639,484	2,155,324	540,917	2,042,975	4,739,216	1,099,732		
2012	1,145,006	4,345,812	5,490,818	1,851,334	3,639,484	2,219,983	557,145	2,063,405	4,840,533	1,201,049		
2013	1,222,294	4,268,524	5,490,818	1,851,334	3,639,484	2,286,583	573,859	2,084,039	4,944,481	1,304,997		
2014	1,304,799	4,186,019	5,490,818	1,851,334	3,639,484	2,355,180	591,075	2,104,879	5,051,134	1,411,650		
2015	1,392,873	4,097,945	5,490,818	1,851,334	3,639,484	2,425,836	608,807	2,125,928	5,160,571	1,521,087		
2016	1,486,892	4,003,926	5,490,818	1,851,334	3,639,484	2,498,611	627,071	2,147,187	5,272,869	1,633,385		
2017	1,587,257	3,903,561	5,490,818	1,851,334	3,639,484	2,573,569	645,883	2,168,659	5,388,112	1,748,628		
2018	1,694,397	3,796,421	5,490,818	1,851,334	3,639,484	2,650,776	665,260	2,190,346	5,506,382	1,866,898		
2019	1,808,769	3,682,049	5,490,818	1,851,334	3,639,484	2,730,300	685,218	2,212,249	5,627,766	1,988,283		
2020	1,930,860	3,559,957	5,490,818	1,851,334	3,639,484	2,812,209	705,774	2,234,372	5,752,354	2,112,871		
2021	2,061,194	3,429,624	5,490,818	1,851,334	3,639,484	2,896,575	726,947	2,256,715	5,880,238	2,240,754		
2022	2,200,324	3,290,494	5,490,818	1,851,334	3,639,484	2,983,472	748,756	2,279,283	6,011,510	2,372,027		
2023	2,348,846	3,141,972	5,490,818	1,851,334	3,639,484	3,072,976	771,218	2,302,075	6,146,270	2,506,786		
2024	2,507,393	2,983,425	5,490,818	1,851,334	3,639,484	3,165,166	794,355	2,325,096	6,284,617	2,645,133		
2025	2,676,642	2,814,176	5,490,818	1,851,334	3,639,484	3,260,121	818,186	2,348,347	6,426,653	2,787,169		
2026	2,857,315	2,633,502	5,490,818	1,851,334	3,639,484	3,357,924	842,731	2,371,831	6,572,486	2,933,002		
2027	3,050,184	2,440,634	5,490,818	1,851,334	3,639,484	3,458,662	868,013	2,395,549	6,722,224	3,082,740		
2028	3,256,072	2,234,746	5,490,818	1,851,334	3,639,484	3,562,422	894,053	2,419,504	6,875,980	3,236,496		
2029	3,475,857	2,014,961	5,490,818	1,851,334	3,639,484	3,669,294	920,875	2,443,699	7,033,869	3,394,385		
2030	3,710,477	1,780,341	5,490,818	1,851,334	3,639,484	3,779,373	948,501	2,468,136	7,196,011	3,556,527		
2031	3,960,934	1,529,884	5,490,818	1,851,334	3,639,484	3,892,754	976,956	2,492,818	7,362,529	3,723,045		
2032	4,228,297	1,262,521	5,490,818	1,851,334	3,639,484	4,009,537	1,006,265	2,517,746	7,533,548	3,894,064		
2033	4,513,707	977,111	5,490,818	1,851,334	3,639,484	4,129,823	1,036,453	2,542,923	7,709,200	4,069,716		
2034	4,818,382	672,435	5,490,818	1,851,334	3,639,484	4,253,718	1,067,547	2,568,353	7,889,617	4,250,133		
2035	5,143,623	347,195	5,490,818	1,690,000	3,800,818	4,381,329	1,099,573	2,594,036	8,074,939	4,274,121		
	65,455,000	71,815,445	137,270,445	46,122,014	91,148,431	78,581,519	19,721,437	57,700,152	156,003,108	64,854,676		
	a	b	c	d	e	f	g	h	i	j		
			a + b		c - d				f + g + h	j - e		
Net Present Value @ 5%			77,387,282		51,342,327				83,190,185	31,847,859		

Capitalized Interest in 2009 & 2010
 Old Bonds Paid off in 2009 but new "Retrofit" bonds assumed to be issued for Shoreway Improvements @ \$20 million; this is to replace the dual stream processing equipment, transfer station roof repair, MRF foundation work, seismic, etc. for 20 years.
 Assume new Retrofit debt @ same payment as old debt, old debt paid off with reserves

SBWMA: Analysis of Net Financial Benefit (over 25 years) of Shoreway Masterplan vs. Maintaining existing Dual Stream MRF at Shoreway

	BOND FINANCING					OPERATIONS - SBR				NET SAVINGS
	MASTER PLAN PROJECT NEW BOND - 2009			"STATUS QUO" RETROFIT BOND¹	VARIANCE	Operational Benefits of Master Plan Project				
	<u>Principal</u>	<u>Avg. Interest & Fees</u>	<u>Total Bond Payment</u>	<u>Total Bond Payment</u>	<u>Incremental Bond Payment</u>	<u>Ops Savings</u> <i>3.0%</i>	<u>Disposal</u> <i>3.0%</i>	<u>New Commodity Revenue, Net</u>	<u>Operational Savings</u>	
									<i>1.0%</i>	
2009		6.75%		6.75%				<i>Annual escalators above</i>		
2010				\$1,851,334						
2011	1,072,605	4,418,213	5,490,818	1,851,334	3,639,484	3,693,324	540,917	1,426,575	5,660,816	2,021,332
2012	1,145,006	4,345,812	5,490,818	1,851,334	3,639,484	3,804,123	557,145	1,440,841	5,802,109	2,162,625
2013	1,222,294	4,268,524	5,490,818	1,851,334	3,639,484	3,918,247	573,859	1,455,249	5,947,355	2,307,871
2014	1,304,799	4,186,019	5,490,818	1,851,334	3,639,484	4,035,795	591,075	1,469,802	6,096,671	2,457,187
2015	1,392,873	4,097,945	5,490,818	1,851,334	3,639,484	4,156,868	608,807	1,484,500	6,250,175	2,610,691
2016	1,486,892	4,003,926	5,490,818	1,851,334	3,639,484	4,281,574	627,071	1,499,345	6,407,990	2,768,506
2017	1,587,257	3,903,561	5,490,818	1,851,334	3,639,484	4,410,022	645,883	1,514,338	6,570,243	2,930,759
2018	1,694,397	3,796,421	5,490,818	1,851,334	3,639,484	4,542,322	665,260	1,529,482	6,737,064	3,097,580
2019	1,808,769	3,682,049	5,490,818	1,851,334	3,639,484	4,678,592	685,218	1,544,776	6,908,586	3,269,102
2020	1,930,860	3,559,957	5,490,818	1,851,334	3,639,484	4,818,950	705,774	1,560,224	7,084,948	3,445,464
2021	2,061,194	3,429,624	5,490,818	1,851,334	3,639,484	4,963,518	726,947	1,575,826	7,266,292	3,626,808
2022	2,200,324	3,290,494	5,490,818	1,851,334	3,639,484	5,112,424	748,756	1,591,585	7,452,764	3,813,280
2023	2,348,846	3,141,972	5,490,818	1,851,334	3,639,484	5,265,797	771,218	1,607,500	7,644,515	4,005,031
2024	2,507,393	2,983,425	5,490,818	1,851,334	3,639,484	5,423,770	794,355	1,623,575	7,841,701	4,202,217
2025	2,676,642	2,814,176	5,490,818	1,851,334	3,639,484	5,586,484	818,186	1,639,811	8,044,480	4,404,996
2026	2,857,315	2,633,502	5,490,818	1,851,334	3,639,484	5,754,078	842,731	1,656,209	8,253,019	4,613,535
2027	3,050,184	2,440,634	5,490,818	1,851,334	3,639,484	5,926,700	868,013	1,672,771	8,467,485	4,828,001
2028	3,256,072	2,234,746	5,490,818	1,851,334	3,639,484	6,104,501	894,053	1,689,499	8,688,054	5,048,570
2029	3,475,857	2,014,961	5,490,818	1,851,334	3,639,484	6,287,636	920,875	1,706,394	8,914,906	5,275,422
2030	3,710,477	1,780,341	5,490,818	1,851,334	3,639,484	6,476,266	948,501	1,723,458	9,148,225	5,508,741
2031	3,960,934	1,529,884	5,490,818	1,851,334	3,639,484	6,670,554	976,956	1,740,693	9,388,203	5,748,719
2032	4,228,297	1,262,521	5,490,818	1,851,334	3,639,484	6,870,670	1,006,265	1,758,100	9,635,035	5,995,551
2033	4,513,707	977,111	5,490,818	1,851,334	3,639,484	7,076,790	1,036,453	1,775,681	9,888,924	6,249,440
2034	4,818,382	672,435	5,490,818	1,851,334	3,639,484	7,289,094	1,067,547	1,793,437	10,150,078	6,510,594
2035	5,143,623	347,195	5,490,818	1,690,000	3,800,818	7,507,767	1,099,573	1,811,372	10,418,711	6,617,894
	65,455,000	71,815,445	137,270,445	46,122,014	91,148,431	134,655,867	19,721,437	40,291,044	194,668,348	103,519,917
	a	b	c	d	e	f	g	h	i	j
			a + b		c - d				f + g + h	i - e
Net Present Value @ 5%		77,387,282			51,342,327				102,968,892	51,626,565

Capitalized Interest in 2009 & 2010

Old Bonds Paid off in 2009 but new "Retrofit" bonds assumed to be issued for Shoreway Improvements @ \$20 million; this is to replace the dual stream processing equipment, transfer station roof repair, MRF foundation work, seismic, etc. for 20 years.

Assume new Retrofit debt @ same payment as old debt, old debt paid off with reserves

ATTACHMENT 2 ANALYSIS OF BUYING SHORTER CALL PERIOD

Municipal bonds are typically structured with an initial period of time during which the bonds may not be optionally redeemed by the issuer ("call protection"). In the current market, call protection extends for the first ten years, after which bonds may be optionally redeemed at their par value. Bank of America Securities (BAS) estimates that shortening call protection to 5 years would add approximately .25% to our interest cost. Shortening call protection to 3 years would likely add another .05%.

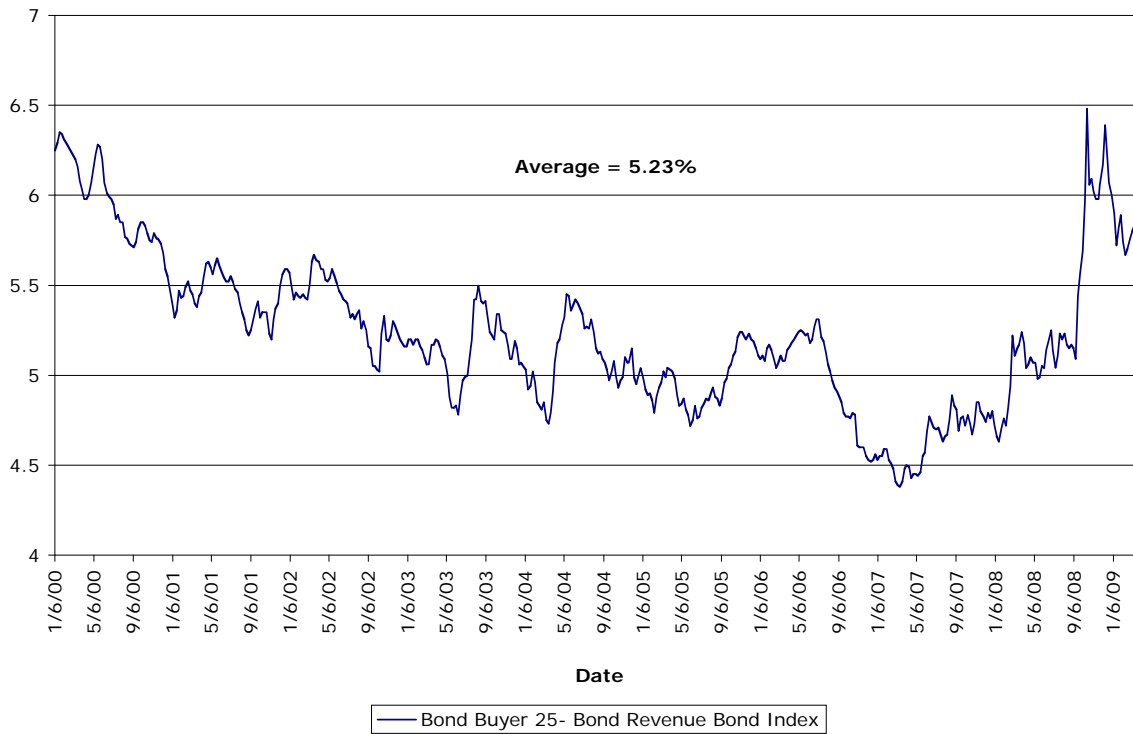
Structuring bonds with optional early redemption to take advantage of potentially lower future interest rates has several collateral repercussions.

Introduction of AMT premium – Bonds issued by the SBWMA in 2009 and 2010 will be free of the premium demanded by investors for purchasing bonds subject to the alternative minimum tax (AMT) calculation. Bonds issued after this period, including refunding bonds, will once again be subject to the AMT calculation, and therefore be subject to the AMT premium. Due to the present lack of investors interested in bonds subject to the AMT, in the present market this premium adds approximately 125 basis points (1.25%) to the interest rate. However, historically, this premium has been more on the order of .25%. While there is no telling what this premium will be in the future, it is not unrealistic to assume that when credit markets return to normalcy, this premium will also revert to historical levels.

Credit Spread Uncertainty – The current high borrowing cost for lesser quality credits is a result of the general tightening of credit and a pronounced flight of capital to high quality debt investments. Almost all of the bond insurance companies which previously allowed municipal borrowers access to the high-grade credit market by issuing bond insurance policies to borrowers with lesser quality investment grade credits (credit ratings of AAA/Aaa to BBB-/Baa3 are investment grade), have had their own credits reduced, and no longer provide borrowers with a means to "buy up" their debt credit quality. Whereas investors previously purchased bonds all along the investment grade credit spectrum, borrowers with credits lower than AA are all being painted with the same brush, and demand is significantly reduced for these credits. With so few willing to buy these credits, credit spreads have widened well beyond their historical levels. The Bond Buyer 25-Bond Revenue Bond Index (BBRBI), a market basket of AA and A rated bonds with maturities of 25 years, is ready statistic one can use to assess the general level of interest rates. The current BBRBI is 5.74%. Because SBWMA is an A- solid waste credit, we can expect to trade at a premium to the BBRBI. Historically, our spread to the BBRBI would have been approximately .50%. In the current market it is approximately .75%. As is the case with the AMT premium, it is not unrealistic to assume that when credit markets return to normalcy, this credit spread will revert to historical levels.

Interest Rate Uncertainty – Adding an early redemption premium of .25% to our interest rate, an extra cost we will have to pay every year until we refund these bonds, carries with it the risk that the general level of interest rates will never decline sufficiently to make a future refunding cost-effective, and the longer we have to wait for interest rates to decline, the greater the premium we will have paid for this uncertain future event. The following chart shows the variation in the BBRBI since 1990.

Bond Buyer 25- Bond Revenue Bond Index
1990 To Present



Analysis – The critical question we have to ask is, for any given level of AMT premium and credit spread, how low does the BBRBI have to be in any given year for a refunding to make economic sense? The typical way to evaluate a refunding is to compare the prior bonds’ debt service to maturity to the refunding bonds’ debt service to maturity and to discount the savings back to the present at the refunding bonds true interest cost (the all-in borrowing cost that takes the time value of money into account). We would certainly perform this calculation at the time we undertook any such future refunding, but our question here is slightly different, and so the analysis is slightly different. We are asking, is it worth it to pay an interest rate premium for the right to refund our bonds early?, and so we need to compare a bond sale conducted today with a 10-year call to a bond sale conducted today with a 5-year call, and subsequently refunded in the fifth year at some assumed interest rate, and discount the cash flows back to today. The only thing we don’t know is the future interest rate, but we can solve for an interest rate that makes us indifferent between the two choices or one that gives us some minimum level of savings. Because net present value (NPV) interest savings equal to 3% of the par amount of refunding bonds sold is the industry standard for the minimum level of savings necessary to justify a refunding, we have elected to solve for the interest rates that produce indifference (breakeven) and 3% NPV savings.

We evaluated three different options:

- 1) 100% fixed rate bonds
- 2) 70% fixed/30% variable hybrid with the variable portion converted to fixed rate after 5 years and the fixed portion refunded after 5 years
- 3) 70% fixed/30% variable hybrid with the variable portion converted to fixed rate after 3 years and the fixed portion refunded after 3 years

100% Fixed Rate Bonds

We compare a traditional 10-year call bond structure to a 5-year call bond structure and solve for both the future interest cost that would allow a 5-year call to break even with a 10-year call, and the future interest cost that would produce a 3% NPV savings over a 10-year call. We assume that our refunding bonds will bear a 25% AMT interest cost premium and that our credit trades at a .50% premium to the BBRBI. The costs of implementing a refunding are assumed to be approximately the same as the costs of structuring and selling the 2009 bonds.

Were we to sell bonds in the present market with a traditional 10-year call, BAS estimates our interest cost would be approximately 6.5%. That would rise to 6.75% if we shortened the call protection to five years. Note that in the BBRBI graph presented earlier the average BBRBI since 1990 has been 5.23%. Adding a .25% AMT penalty and a .50% credit spread to make that number comparable to our cost of funds during the same period brings the average up to 5.98%. The following table shows how the break even and 3% NPV savings rates compare to this benchmark average.

Refunding in Five Years			
	<u>Benchmark</u>	<u>Breakeven</u>	<u>3% NPV Savings</u>
BBRBI Average Since 1990	5.23%		
Future Base Market Rate (BBRBI)		5.46%	5.03%
Plus Credit Spread to BBRBI	0.50%	0.50%	0.50%
Plus AMT Premium	<u>0.25%</u>	<u>0.25%</u>	<u>0.25%</u>
Future Rate Estimate	5.98%	6.21%	5.78%

While the market would have to be approximately 20 basis points better than the 9-year average of 5.73% (see previous chart), note that there were several periods during this span when interest rates were substantially below the period average. It is not unrealistic to assume that we will have an opportune refunding window sometime between five and 10 years from now, although both the breakeven and the 3% NPV savings interest rate hurdle will increase each year. The following table shows what the BBRBI hurdle rate would have to be in the 5th, 7th and 10th year to break even and to produce 3% NPV savings¹. Note that that the hurdle rate gets lower at an increasing rate.

<u>Refunding Year</u>	<u>Breakeven BBRBI</u>	<u>3% NPV BBRBI</u>
5	5.46%	5.03%
7	5.42%	4.96%
10	5.10%	4.50%

A refunding conducted in 10 years (having paid for the right to refund after five years) at the higher hurdle of 3% NPV savings requires a BBRBI of 4.5%, which is at the very low end of the BBRBI history since 1990. While a refunding might nevertheless be cost effective after the tenth year (as measured from that year to maturity, disregarding all the higher payments made prior to the refunding), buying the five year call option would have been the wrong bet as it is very unlikely that we would be able to refund at a rate that would pay us back for 10 or more years of early call premium payments.

¹ Note that in this analysis, the higher a hurdle rate is the easier it is to achieve: higher hurdle rates are better than lower hurdle rates.

70% fixed/30% variable hybrid with the variable portion converted to fixed rate after 5 years and the fixed portion refunded after 5 years

As with the 100% fixed rate structure, we solve for the interest rates that allow us to break even and that produce 3% NPV savings. However, we assume that our converted bonds will not bear an AMT interest cost premium while the refunded bonds will, and that our credit trades at a .50% premium to the BBRBI. The following table shows the hurdle rates for the fixed rate portion of the financing that is refunded after 5 years. The rates are nearly the same as for the 100% fixed rate analysis. As with the 100% fixed rate analysis, the hurdle rates will become progressively lower as the refunding is extended out in time.

Refunding in Five Years for Fixed Rate Portion			
	<u>Benchmark</u>	<u>Breakeven</u>	<u>3% NPV Savings</u>
BBRBI Average Since 1990	5.23%		
Future Base Market Rate (BBRBI)		5.43%	5.00%
Plus credit spread to BBRBI	0.50%	0.50%	0.50%
Plus AMT	<u>0.25%</u>	<u>0.25%</u>	<u>0.25%</u>
Future Rate Estimate	5.98%	6.18%	5.75%

Solving for a hurdle rate to analyze the variable rate portion of the financing does not make much sense. Because there is no prepayment premium associated with converting variable rate bonds to a fixed rate, we can't compare cash flows as we can with the fixed rate bond structure. For this portion of the analysis we instead look at a likely interest rate scenario and solve for the amount that would accrue to the rate stabilization reserve. Because we would likely keep variable rate bonds outstanding if short term rates stayed low, we assume that short term interest rates stay low over the next 2-3 years as the economy works its way out of the current recession, but that the Federal Reserve gradually increases the Fed Funds rate to keep inflation at bay until by the fifth year our cost of funds is at 3%, which together with fees, brings us to an all-in cost of funds of 5.1%, quite near our long-term pro forma estimate of 5.25%. The cash flow presented below assumes that variable rate debt service is budgeted at 6.5%, an amount in excess of interest and fees. We use 6.5% for budgeting purposes because both the bank and the rating agencies will want to be sure that we budget an amount sufficient to cover unexpectedly high interest costs. Furthermore, it is quite close to what we would have had to pay had we sold fixed rate bonds, so the amounts budgeted but not expended on debt service can be characterized as our savings over an all fixed rate financing. Amounts budgeted but not expended on debt service are deposited to the rate stabilization reserve. At the time of the assumed conversion to a fixed rate, we would have accumulated approximately \$2.6 million in the rate stabilization reserve over the five year period.

70% Fixed/30% Variable Operating Cash Flow Estimate

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Net Revenues	4,666,051	6,427,078	9,852,000	10,989,000	11,675,500	11,616,000
Less: Debt Service - 2000 Bond	1,279,783					
Less: Debt Service - New Bond Fixed	1,278,422	3,068,213	3,068,213	3,813,080	3,813,080	3,813,080
Less: Debt Service - New Bond Variable	<u>225,000</u>	<u>620,000</u>	<u>720,000</u>	<u>1,224,813</u>	<u>1,425,420</u>	<u>1,426,059</u>
Total Debt Service	2,783,204	3,688,213	3,788,213	5,037,893	5,238,500	5,239,139
Debt Service Coverage Ratio	1.68	1.74	2.60	2.18	2.23	2.22
Net Revenue Available After Debt Service	1,882,847	2,738,866	6,063,788	5,951,107	6,437,000	6,376,861
less Franchise Fees	<u>1,269,000</u>	<u>1,414,000</u>	<u>1,514,000</u>	<u>1,591,000</u>	<u>1,635,000</u>	<u>1,672,000</u>
Net Operating Cash Flow	613,847	1,324,866	4,549,788	4,360,107	4,802,000	4,704,861
<i>Transfers</i>						
To Operating Reserve	383,847	644,866	3,969,788	2,592,607	3,175,355	3,016,486
To Rate Stabilization Reserve	230,000	680,000	580,000	480,000	300,645	322,375
To Equipment Replacement Reserve	-	-	-	1,287,500	1,326,000	1,366,000
Total Transfers	<u>613,847</u>	<u>1,324,866</u>	<u>4,549,788</u>	<u>4,360,107</u>	<u>4,802,000</u>	<u>4,704,861</u>
Operating Reserve Ending Balance	383,847	1,028,713	4,998,500	7,591,107	10,766,462	13,782,948
Rate Stabilization Ending Balance	230,000	910,000	1,490,000	1,970,000	2,270,645	2,593,020
Equipment Reserve Ending Balance	-	-	-	1,287,500	2,613,500	3,979,500
LOC Fee	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Remarketing Fee	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
Interest Rate	<u>0.60%</u>	<u>1.00%</u>	<u>1.50%</u>	<u>2.00%</u>	<u>3.00%</u>	<u>3.00%</u>
Total	2.70%	3.10%	3.60%	4.10%	5.10%	5.10%
Budget Interest Rate	6.50%					
Amortization Interest Rate	5.25%					

70% fixed/30% variable hybrid with the variable portion converted to fixed rate after 3 years and the fixed portion refunded after 3 years

Just as with a hybrid bond structure with the fixed rate bonds refunded after five years and variable rate bonds converted to a fixed rate after five years, we solve for the interest rates on the fixed rate portion of the debt that allow us to break even and that produce 3% NPV savings. With the exception of the refunding and conversion taking place after three years instead of five years and a .30% call premium on the 2009 fixed rate bonds instead of a .25% call premium, all of the assumptions are the same as the 70% fixed/30% variable hybrid structure analyzed in the previous section. The following table shows the hurdle rates on the fixed rate portion of the debt that yield the breakeven and 3% NPV results. Although the interest rate call premium is 5 basis points greater than the 5-year call, there are two fewer years in which a premium is paid, so the hurdle rates go up a bit with a 3-year call.

Refunding in Three Years for Fixed Rate Portion

	<u>Benchmark</u>	<u>Breakeven</u>	<u>3% NPV Savings</u>
BBRBI Average Since 1990	5.23%		
Future Base Market Rate (BBRBI)		5.50%	5.14%
Plus credit spread to BBRBI	0.50%	0.50%	0.50%
Plus AMT	<u>0.25%</u>	<u>0.25%</u>	<u>0.25%</u>
Future Rate Estimate	5.98%	6.25%	5.89%

And, as might be expected, two fewer years in the variable rate mode prior to conversion to a fixed rate results in a smaller ending balance \$1.97 million in the rate stabilization reserve at the time of conversion.

70% Fixed/30% Variable Operating Cash Flow Estimate

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Net Revenues	4,666,051	6,427,078	9,852,000	10,989,000
Less: Debt Service - 2000 Bond	1,279,783			
Less: Debt Service - New Bond Fixed	1,287,892	3,090,940	3,090,940	3,830,502
Less: Debt Service - New Bond Variable	225,000	620,000	720,000	1,224,813
Total Debt Service	2,792,674	3,710,940	3,810,940	5,055,315
Debt Service Coverage Ratio	1.67	1.73	2.59	2.17
Net Revenue Available After Debt Service	1,873,377	2,716,138	6,041,060	5,933,685
less Franchise Fees	1,269,000	1,414,000	1,514,000	1,591,000
Net Operating Cash Flow	604,377	1,302,138	4,527,060	4,342,685
<i>Transfers</i>				
To Operating Reserve	374,377	622,138	3,947,060	2,575,185
To Rate Stabilization Reserve	230,000	680,000	580,000	480,000
To Equipment Replacement Reserve	-	-	-	1,287,500
Total Transfers	604,377	1,302,138	4,527,060	4,342,685
Operating Reserve Ending Balance	374,377	996,515	4,943,575	7,518,761
Rate Stabilization Ending Balance	230,000	910,000	1,490,000	1,970,000
Equipment Reserve Ending Balance	-	-	-	1,287,500
LOC Fee	2.00%	2.00%	2.00%	2.00%
Remarketing Fee	0.10%	0.10%	0.10%	0.10%
Interest Rate	<u>0.60%</u>	<u>1.00%</u>	<u>1.50%</u>	<u>2.00%</u>
Total	2.70%	3.10%	3.60%	4.10%
Budget Interest Rate	6.50%			
Amortization Interest Rate	5.25%			

Conclusions

Buying shorter call protection – If all of the bonds are structured as fixed rate, shortening the call protection to 5 years requires the BBRBI to drop approximately 70 basis points to 5.03% from its present level of 5.74% to achieve NPV savings of 3% over selling bonds with 10 year call protection. There have been several periods over the past decade when the BBRBI was below 5%, the longest in 2007 through the first half of 2008. It is not unreasonable to believe that the BBRBI will dip below 5% in the future, but for the purchase of this prepayment option to, *ex post*, have made economic sense, our window of opportunity is rather brief, probably no more than 3 years running from year 5 through year 8. After that it becomes increasingly more difficult for us to say we made the right decision.

Conversion/Refunding After Three or Five Years -- The hurdle rate analysis is substantially similar to the 100% fixed rate bond structure, and for the fixed rate portion, the conclusion is the same. We have a very small window in which to execute a refunding. The window is a bit larger with a 3-year call structure. Converting the variable rate bonds to a fixed rate can be done at any time, with no prepayment premium. But making the decision to convert to a fixed rate may prove to be quite difficult. If interest rates remain low for variable rate bonds the SBWMA may be reluctant to exchange those savings for the greater certainty of a higher fixed rate, even if that fixed rate is low by historical standards. But when short term rates are high, long term rates will be even higher, and the decision to convert to a fixed rate will be even more difficult.

**ATTACHMENT 3
SUPPORTING TABLES FOR EARLY CALL ANALYSIS**

100% Fixed Rate Bonds		
	<u>Interest Rate</u>	<u>Annual Debt Service</u>
2009 Bonds, 5-Yr Call Protection	6.75%	5,490,818
2009 Bonds, 10-Yr Call Protection	<u>6.50%</u>	<u>5,366,098</u>
Difference	0.25%	124,720
Refunding in Five Years		
	<u>Breakeven</u>	<u>3% NPV Savings</u>
Future Base Market Rate (BBRBI)	5.46%	5.03%
Plus Credit Spread to BBRBI	0.50%	0.50%
Plus AMT Premium	<u>0.25%</u>	<u>0.25%</u>
Future Rate Estimate	6.21%	5.78%
Refunding Size		
Escrow	62,015,094	62,015,094
COI	350,000	350,000
Minus Prior DSRF	(5,490,818)	(5,490,818)
Plus New DSRF	5,290,487	5,080,457
Discount	0.65% 406,715	<u>405,340</u>
Total	62,571,478	62,360,074
NPV Savings (Cost)	0	1,870,802
3% NPV Target		<u>1,870,802</u>
Difference		(0)
Indifference Rate	6.21%	
Rate Producing 3% NPV Savings		5.78%

100% Fixed Rate Bonds

Breakeven Analysis

3% NPV Savings Analysis

Call Period 2009 Yield	10-Yr Call	5-Yr Call	5-Yr Call	5-Yr Call	5-Yr Call
	6.5% Yield	6.75% Yield	Savings	6.75% Yield	Savings
	1,772,740	1,840,922	(68,182)	1,840,922	(68,182)
1	4,254,575	4,418,213	(163,638)	4,418,213	(163,638)
2	4,254,575	4,418,213	(163,638)	4,418,213	(163,638)
3	5,366,098	5,490,818	(124,720)	5,490,818	(124,720)
4	5,366,098	5,490,818	(124,720)	5,490,818	(124,720)
5	5,366,098	5,490,818	(124,720)	5,490,818	(124,720)
6	5,366,098	5,290,487	75,611	5,080,457	285,641
7	5,366,098	5,290,487	75,611	5,080,457	285,641
8	5,366,098	5,290,487	75,611	5,080,457	285,641
9	5,366,098	5,290,487	75,611	5,080,457	285,641
10	5,366,098	5,290,487	75,611	5,080,457	285,641
11	5,366,098	5,290,487	75,611	5,080,457	285,641
12	5,366,098	5,290,487	75,611	5,080,457	285,641
13	5,366,098	5,290,487	75,611	5,080,457	285,641
14	5,366,098	5,290,487	75,611	5,080,457	285,641
15	5,366,098	5,290,487	75,611	5,080,457	285,641
16	5,366,098	5,290,487	75,611	5,080,457	285,641
17	5,366,098	5,290,487	75,611	5,080,457	285,641
18	5,366,098	5,290,487	75,611	5,080,457	285,641
19	5,366,098	5,290,487	75,611	5,080,457	285,641
20	5,366,098	5,290,487	75,611	5,080,457	285,641
21	5,366,098	5,290,487	75,611	5,080,457	285,641
22	5,366,098	5,290,487	75,611	5,080,457	285,641
23	5,366,098	5,290,487	75,611	5,080,457	285,641
24	5,366,098	5,290,487	75,611	5,080,457	285,641
25	5,366,098	5,290,487	75,611	5,080,457	285,641
26	5,366,098	5,290,487	75,611	5,080,457	285,641
27	5,366,098	5,290,487	75,611	5,080,457	285,641
	<u>144,434,336</u>	<u>143,540,514</u>	<u>893,822</u>	<u>138,919,859</u>	<u>5,514,477</u>

**\$45.455 Million (70%) Fixed Rate Bonds
\$20 Million (30%) Variable Rate Bonds**

	<u>Interest Rate</u>	<u>Annual Debt Service</u>
2009 Bonds, 5-Yr Call Protection	6.75%	3,813,080
2009 Bonds, 10-Yr Call Protection	<u>6.50%</u>	<u>3,726,468</u>
Difference	0.25%	86,611

Conversion & Refunding in Five Years

	<u>Breakeven</u>	<u>3% NPV Savings</u>
Future Base Market Rate (BBRBI)	5.43%	5.00%
Plus credit spread to BBRBI	0.50%	0.50%
Plus AMT	<u>0.25%</u>	<u>0.25%</u>
Future Rate Estimate	6.18%	5.75%
Refunding Size		
Escrow	43,066,169	43,066,169
COI	350,000	350,000
Minus Prior DSRF	(3,813,080)	(3,813,080)
Plus New DSRF	3,674,124	3,528,471
Discount	0.65% <u>283,142</u>	<u>282,189</u>
Total	43,560,356	43,413,750
NPV Savings (Cost)	(0)	1,302,413
3% NPV Target		<u>1,302,413</u>
Difference		(0)
Indifference Rate	6.18%	
Rate Producing 3% NPV Savings		5.75%

\$45.455 Million (70%) Fixed Rate Bonds

Breakeven Analysis

3% NPV Savings Analysis

Call Period 2009 Yield	10-Yr Call	5-Yr Call	5-Yr Call	5-Yr Call	5-Yr Call
	6.5% Yield	6.75% Yield	Savings	6.75% Yield	Savings
	1,231,073	1,278,422	(47,349)	1,278,422	(47,349)
1	2,954,575	3,068,213	(113,638)	3,068,213	(113,638)
2	2,954,575	3,068,213	(113,638)	3,068,213	(113,638)
3	3,726,468	3,813,080	(86,611)	3,813,080	(86,611)
4	3,726,468	3,813,080	(86,611)	3,813,080	(86,611)
5	3,726,468	3,813,080	(86,611)	3,813,080	(86,611)
6	3,726,468	3,674,124	52,344	3,528,471	197,997
7	3,726,468	3,674,124	52,344	3,528,471	197,997
8	3,726,468	3,674,124	52,344	3,528,471	197,997
9	3,726,468	3,674,124	52,344	3,528,471	197,997
10	3,726,468	3,674,124	52,344	3,528,471	197,997
11	3,726,468	3,674,124	52,344	3,528,471	197,997
12	3,726,468	3,674,124	52,344	3,528,471	197,997
13	3,726,468	3,674,124	52,344	3,528,471	197,997
14	3,726,468	3,674,124	52,344	3,528,471	197,997
15	3,726,468	3,674,124	52,344	3,528,471	197,997
16	3,726,468	3,674,124	52,344	3,528,471	197,997
17	3,726,468	3,674,124	52,344	3,528,471	197,997
18	3,726,468	3,674,124	52,344	3,528,471	197,997
19	3,726,468	3,674,124	52,344	3,528,471	197,997
20	3,726,468	3,674,124	52,344	3,528,471	197,997
21	3,726,468	3,674,124	52,344	3,528,471	197,997
22	3,726,468	3,674,124	52,344	3,528,471	197,997
23	3,726,468	3,674,124	52,344	3,528,471	197,997
24	3,726,468	3,674,124	52,344	3,528,471	197,997
25	3,726,468	3,674,124	52,344	3,528,471	197,997
26	3,726,468	3,674,124	52,344	3,528,471	197,997
27	<u>3,726,468</u>	<u>3,674,124</u>	<u>52,344</u>	<u>3,528,471</u>	<u>197,997</u>
	100,301,928	99,684,811	617,117	96,480,452	3,821,476

**\$45.455 Million (70%) Fixed Rate Bonds
\$20 Million (30%) Variable Rate Bonds**

	<u>Interest Rate</u>	<u>Annual Debt Service</u>
2009 Bonds, 5-Yr Call Protection	6.75%	3,830,502
2009 Bonds, 10-Yr Call Protection	<u>6.50%</u>	<u>3,726,468</u>
Difference	0.25%	104,033

Conversion & Refunding in Three Years

	<u>Breakeven</u>	<u>3% NPV Savings</u>
Future Base Market Rate (BBRBI)	5.50%	5.14%
Plus credit spread to BBRBI	0.50%	0.50%
Plus AMT	<u>0.25%</u>	<u>0.25%</u>
Future Rate Estimate	6.25%	5.89%
Refunding Size		
Escrow	44,715,438	44,715,438
COI	350,000	350,000
Minus Prior DSRF	(3,830,502)	(3,830,502)
Plus New DSRF	3,688,048	3,555,404
Discount	0.65% <u>293,910</u>	<u>293,042</u>
Total	45,216,895	45,083,382
NPV Savings (Cost)		(0) 1,352,501
3% NPV Target		<u>1,352,501</u>
Difference		(0)
Indifference Rate	6.25%	
Rate Producing 3% NPV Savings		5.89%

\$45.455 Million (70%) Fixed Rate Bonds

Breakeven Analysis

3% NPV Savings Analysis

Call Period 2009 Yield	Breakeven Analysis		3% NPV Savings Analysis		
	10-Yr Call 6.5% Yield	3-Yr Call 6.80% Yield	3-Yr Call Savings	3-Yr Call 6.80% Yield	3-Yr Call Savings
	1,231,073	1,287,892	(56,819)	1,287,892	(56,819)
1	2,954,575	3,090,940	(136,365)	3,090,940	(136,365)
2	2,954,575	3,090,940	(136,365)	3,090,940	(136,365)
3	3,726,468	3,830,502	(104,033)	3,830,502	(104,033)
4	3,726,468	3,688,048	38,420	3,555,404	171,065
5	3,726,468	3,688,048	38,420	3,555,404	171,065
6	3,726,468	3,688,048	38,420	3,555,404	171,065
7	3,726,468	3,688,048	38,420	3,555,404	171,065
8	3,726,468	3,688,048	38,420	3,555,404	171,065
9	3,726,468	3,688,048	38,420	3,555,404	171,065
10	3,726,468	3,688,048	38,420	3,555,404	171,065
11	3,726,468	3,688,048	38,420	3,555,404	171,065
12	3,726,468	3,688,048	38,420	3,555,404	171,065
13	3,726,468	3,688,048	38,420	3,555,404	171,065
14	3,726,468	3,688,048	38,420	3,555,404	171,065
15	3,726,468	3,688,048	38,420	3,555,404	171,065
16	3,726,468	3,688,048	38,420	3,555,404	171,065
17	3,726,468	3,688,048	38,420	3,555,404	171,065
18	3,726,468	3,688,048	38,420	3,555,404	171,065
19	3,726,468	3,688,048	38,420	3,555,404	171,065
20	3,726,468	3,688,048	38,420	3,555,404	171,065
21	3,726,468	3,688,048	38,420	3,555,404	171,065
22	3,726,468	3,688,048	38,420	3,555,404	171,065
23	3,726,468	3,688,048	38,420	3,555,404	171,065
24	3,726,468	3,688,048	38,420	3,555,404	171,065
25	3,726,468	3,688,048	38,420	3,555,404	171,065
26	3,726,468	3,688,048	38,420	3,555,404	171,065
27	<u>3,726,468</u>	<u>3,688,048</u>	<u>38,420</u>	<u>3,555,404</u>	<u>171,065</u>
	100,301,928	99,813,429	488,500	96,629,959	3,671,969

ATTACHMENT 4 MEMBER AGENCY LOAN SCENARIO

At the April 6th study session, Board Member Jesus Nava suggested that the plan of finance include an element which would allow the SBWMA to borrow funds from member agencies.

Since the study session, Brian Ponty, Board member and refunding manager, has conducted preliminary research into this proposal and has identified the following threshold questions that must be answered and decided upon prior to the financing team determining how this proposal might fit into the plan of finance:

- The proposed interest rate and term to maturity? Bond counsel has advised that any interest paid to members on these loans must be a market interest rate. Will the lenders (i.e., Member Agencies) accept an interest rate based upon tax-exempt market rates or will they require an interest rate based on taxable market rates? Should the lenders request an interest rate based upon taxable market interest rates the Board will then need to decide if it is appropriate to borrow at this rate. It is also understood that the Government Code limits municipalities to investing in securities to terms of five years or less. Accordingly, the plan of finance needs to include a means of repaying these loans. Such repayment will need to come from either internally generated fund balance (i.e., cash reserves) or from a subsequent bond issue.
- Will such debt be on parity with or subordinate to existing debt the SBWMA has outstanding or needs to issue?
- What level of funding will be raised through this approach? When will the SBWMA know how much money is available from the lenders?
- If the entire amount needed to finance the improvements at the Shoreway Recycling and Disposal Center ("Shoreway facility") cannot be raised through member loans how will the balance of such funds be raised?

Mr. Ponty has requested the assistance of Mr. Nava in obtaining answers to these questions as the financing team needs to thoroughly understand what terms the potential lenders (member agencies) will need in order to be comfortable lending to the SBWMA. The financing team then needs to examine and analyze these proposed terms so that it will be in a position to advise the Board whether this method of finance is in the SBWMA's best interest. Examples of some of the issues the financing team will need to analyze is how the repayment of these loans will affect the coverage ratio in the year the repayment occurs and how this financing will be viewed by the credit rating agencies. There is also a timing issue as the Shoreway capital improvements have already been delayed and further delays will financially impact the SBWMA and ratepayers. In order for the SBWMA to issue new debt on the current schedule (Board approval at its July 23rd meeting with issuance 3-5 weeks later), a final plan of finance needs to be approved in May.

As with any suggestion on how to finance the Shoreway facility improvements this proposal requires very careful and thorough examination so that the advantages and disadvantages can be presented to the Board.

The refunding team is fully committed to exploring this option within the resources and time constraints which it has available.