

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)

STAFF REPORT

**INFRASTRUCTURE STATE REVOLVING FUND (ISRF) PROGRAM
DIRECT FINANCING EXECUTIVE SUMMARY**

Applicant: City of Watsonville (City)	ISRF Criteria Project Type / Category: Public Development Facilities / 11. Solid Waste Collection and Disposal	
Amount Requested: \$6,000,000 (Financing)	Financing Term: 25 years	Interest Rate: 4.23% (including a 0.30% annual servicing fee)
Source of Repayment: Solid Waste Fund (Fund)		Applicant Credit Rating/Date: Unrated
Security: The ISRF Program financing (Financing) would be secured by a senior lien on Net Revenues and all legally available amounts in the Fund.		
Project Name: Landfill Phase IV Construction Project (Project)		Project Location: 730 San Andreas Rd, Watsonville, CA 95076

Project Description / Use of Loan Proceeds:

The City of Watsonville will use the loan proceeds to build a new 7.1-acre landfill site. The City’s overall landfill program, which was developed several decades ago, is permitted for a total of 103 acres and is comprised of four phases. Phases I-II were closed in 1997. In Phase III, the city began diverting their waste stream to the Monterey Regional Waste Management District (MRWMD) for processing and disposal. The landfill (Phase III) is located 20 miles away from MRWMD and is expected to close in 2022 after a 2-year settlement period. Due to the costs associated with diverting the City’s waste to the MRWMD, the City has decided to pursue expansion of the landfill, via Phase IV (the Project), at a City-owned site, as part of a more economical and greener strategy.

The total budget for the Project is \$6 million. The scope of work includes but is not limited to 1) Excavating and grading the site (\$1.5M); 2) Constructing a green and wood waste processing plant (\$3.5M); and 3) Purchasing a Compactor (\$1M). The completed site and plant have an estimated useful life of 25-35 years, and the Compactor 20-25 years, so the requested 25-year loan term is consistent with the overall useful life of the Project. Phase IV construction will proceed immediately after the final cap/closure of Phase III landfill cell, estimated to be in April/May of 2023. Phase IV is expected to be completed within 12 months barring any setbacks. MRWMD will continue to take the City’s waste until the new landfill is operational. During the interim construction period, MRWMD will continue with their contract for process and disposal until the new landfill is operational.

Financing Sources and Use

The chart below shows a basic Sources and Uses for the Project:

Project Uses	Project Sources		
	IBank	City of Watsonville	Total
Excavating and Grading	\$1,500,000		\$1,500,000
Construction of Green & Wood Waste Processing Plant	\$3,500,000		\$3,500,000
Compactor	\$750,000		\$750,000
Contingencies	\$250,000		\$250,000
Origination Fee		\$60,000	\$60,000
Total	\$6,000,000	\$60,000	\$6,060,000

The City has a 25% contingency built into the site and plant hard budget, and a 33% contingency for the Compactor component, for a blended contingency of 26%. The high contingency will provide a strong cushion against any potential price increases due to supply chain and labor constraints. The Origination Fee will be paid by the City.

Project / Public Benefits

The City of Watsonville has been a leader in recycling and efficient waste collection. It was one of the first cities in the nation to implement the collection of mixed recyclable materials in 1996, which provided a more customer-friendly service and resulted in higher recycling rates. It also initiated an automated garbage collection, which greatly increased efficiency and reduced workplace injuries. When Landfill Phase IV opens it will enable the city to divert all Municipal Solid Waste currently being hauled to the City of Marina at the MRWMD, saving the City approximately \$180,000 per year. The Project will thus enable more environmentally sustainable practices for the City, contributing to a cleaner environment and reducing the municipality's consumption of petroleum products.

This Project supports the City's Climate Action and Adaptation Plan. The expected savings from discontinuing the MRWMD arrangement is expected to help contain disposal rate charges, which should contribute to keeping future rate increases at reasonable levels. Watsonville has been deemed a Disadvantaged Community (DAC) by the State of California, based on CalEnviroscreen criteria indicating high burdens of poverty, unemployment, air and water pollution, and presence of hazardous waste. DAC's also exhibit less than 80% of the State's median household income (Watsonville's is 78%).

Credit Considerations:

Cash Flow analysis for the Financing is summarized as follows:

SOLID WASTE FUND CASH FLOW					
For Fiscal Year Ending (FYE) June 30	2017	2018	2019	2020	2021
Operating Income (Loss)	\$272,964	(\$191,667)	\$1,592,274	\$2,020,490	(\$879,077)
Transaction Specific Adjustments					
+ Depreciation	\$581,755	\$648,588	\$664,952	\$609,326	\$750,401
+ Grant Revenue	\$12,280	\$5,148	\$14,011	\$22,477	\$22,614
+ Interest Revenue	\$53,386	\$42,170	\$233,337	\$179,514	\$6,820
+ Interest Expense	(\$24,686)	(\$17,123)	(\$25,305)	\$0	(\$3,838)
+ Adjustment for Equipment Loan draw included in revenues					(\$1,082,962)
+ Non-recurring MSC Adjustment for MSC costs in expenses					\$2,182,435
+ Adjustment for MSC related reimbursement included in Revenues					(\$2,318,244)
+ Adjustment for MSC Staff Pension Liability in expenses					\$1,356,173
Total of all Adjustments	\$622,735	\$678,783	\$886,995	\$811,317	\$913,399
Cash Available for Debt Service	\$895,699	\$487,116	\$2,479,269	\$2,831,807	\$34,322
Debt Service Calculation					
Total Existing MADS Debt Service	\$339,151	\$339,151	\$339,151	\$339,151	\$339,151
Proposed IBank MADS ⁽¹⁾	\$396,378	\$396,378	\$396,378	\$396,378	\$396,378
Total Obligations MADS	\$735,529	\$735,529	\$735,529	\$735,529	\$735,529
Debt Service Coverage Ratio ⁽²⁾	1.22	0.66	3.37	3.85	0.05
⁽¹⁾ Calculated at \$6,000,000 at all-in rate of 4.23% for 25 years					
⁽²⁾ Existing Parity Debt Minimum Required DSCR 1.20					

Historical Cash flow shows that the Fund has adequate cash flow in three of the five historical years reviewed. FY 2018 shows inadequate coverage mainly due to a pension-related accounting adjustment, in which CalPERS reduced the discount rate on net pension liability from 7.65% to 7.15%. While this change increased expenses and liabilities for Watsonville, it had no immediate impact on cash position and/or operational health. That year the City also increased the employee count in the Fund by 3 people.

In FY 2021 the loss of \$879,077 resulted in inadequate cash flow coverage. The loss was due the Fund incurring additional \$1.6M in expenses related to the rollout of the SB 1383 organics program including \$400K in upfront costs to purchase gallon carts for the organics program, \$350K in additional operating expenses, and \$860K for related contract services and supplies. Additional increases in expenditures in FY 2021 included compensated absences of \$101K and \$376K in cost allocation recovery increases related to Municipal Service Center (MSC) not reimbursed by City. NOTE: If these additional expenses of a total of \$2.1M were not there in FY 2021, we would have DSCR of 2.89X in FY 2021.

In FY 2021 the City transferred the corporation yard fleet shop and mechanics crew, known as the MSC, from the general government to the Solid Waste Fund, which added about 7-8 positions. The City has since transferred the MSC yet again, to an Internal Service Fund, moved the additional headcount with it. The following were adjustments made in the cash flow table above related to the MSC in FY 2021:

1. Addback for MSC costs included in operating expenses that are non-recurring of \$2,182,435
2. Deduction of \$2,318,244 of reimbursement from the City into Revenues. Note that adjustments 1 and 2 are essentially a wash.
3. Addback of Pension Liability for MSC of \$1,356,173 included in operating expenses not reimbursed by City. Reimbursement is expected in the coming months.

The City also erroneously recorded a \$1,082,962 draw on an equipment as revenue, which has also been deducted from cash flow.

Despite the weak performance in FY 2021 caused by the additional operating expenses related to the SB 1383 Organics Program mentioned above, the City has taken measures to shore up the Fund's performance via the MSC transfer and ensuring a favorable rate structure in place in future years. Unaudited FY 2022 Statement of Net Position (Exhibit # 5) was provided for the Fund showing that the Fund has turned around since FY 2021. (The FY 2022 ACFR's are not as yet available).

The projected cash flow for FY 2023 through FY 2027 shows adequate cash flow coverage. Please refer the Cash flow analysis and Projections section for detail.

Besides Phase IV, the City has planned approximately \$13.6M in Solid Waste Enterprise capital expenditures over the next ten years. Rate increases both historical and in future were planned to cover these costs. No additional borrowing is anticipated.

An amount equal to one year's debt service for the proposed loan will be required to be placed in a debt service reserve fund by the City for a period of one year after the project is completed and operational. Please refer terms and conditions section.

Support for Staff Recommendations:

1. Cash flow analysis demonstrates the Fund's ability to service existing debt and the proposed Financing.
2. A debt service reserve fund will be required for one year of debt service after the project construction is complete.
3. The estimated useful life of the Project exceeds the 25-year term of the Financing.
4. The Solid Waste Fund's net position for FY 2021 was \$5.3M, showing good capacity to generate the resources needed to cover the proposed loan payment along with other debt service.
5. The City has successfully increased rates to cover expenses and service its debt.
6. The project will ensure the County complies with SB 1383 requirements, reduce greenhouse gases, and improve air quality.

<p>IBank Staff: Richard Nesbitt and Lina Benedict</p>	<p>Date of Staff Report: December 12, 2022</p>
<p>Date of IBank Board Meeting December 21, 2022</p>	<p>Resolution Number: 22-20</p>

Staff Recommendation:
Staff recommends approval of Resolution No. 22-20 authorizing ISRF Program financing in an amount not to exceed \$6,000,0000 to the City of Watsonville, for the Landfill Phase IV Construction Project.

GENERAL CITY INFORMATION, ECONOMY, AND PROJECT DESCRIPTION

The City of Watsonville was incorporated in 1868 and is located six miles inland from Monterey Bay. The City has a land area of 6.19 square miles and a population of 53,856 people, based on US Census estimates as of July 1, 2019. Watsonville became a charter city government in 1908. Policymaking and legislative authority are vested in the governing City Council, which consists of seven Council Members, one of whom serves as mayor on a one-year rotating basis.

Watsonville and the surrounding Pajaro Valley are known as one of the primary producers of agricultural crops and goods along the Northern Pacific Coast. The city’s economy is grounded in the agri-business market and in the distribution of crops and related products throughout the world. While agriculture and food processing are mainstays of the local economy, the City has been diversifying, with an influx of electronics, manufacturing, and service firms, in addition to the establishment of distribution centers for non-agricultural products.

If the Pajaro Valley were a county, it would rank 5th in agricultural production in California. Besides agriculture, tourism ranks as a top employer and revenue producing industry. One of Watsonville’s major tourist attractions is the annual Strawberry Festival. Average annual attendance is 20,000-30,000 people, generating \$1.42M in economic activity. Around \$700 million is spent in direct travel expenditures in this region each year.

Project Description:

The City is building a new landfill, known as Phase IV, to replace the existing landfill known as Phase III, which has reached its capacity and is being shut down. Phase III has been in operation since 1997 (when Phases I & II were closed), and in 2020 reached the end of its useful life. Phase IV will be an expanded landfill area that will serve the City for the next 25 to 35 years. Due to the annual costs of \$180K associated with diverting the City’s waste to the Monterey Regional Waste Management District (MRWMD), in the City of Marina 20 miles away, Watsonville decided to pursue expansion of the Landfill at a City-owned 7.1-acre site, located northeast of the former Phase I & II landfills, consistent with its economic and green strategy.

Phase IV consists of excavating and grading the site and will also include a green and wood waste processing plant. The City is also purchasing a new compactor for the landfill, due to the aging of existing compactors. The new landfill and plant will have an estimated useful life of 25-35 years, and the Compactor 20-25 years. When completed the new landfill will be capable of handling the City’s estimated 60 tons of waste per day.

The estimates cost of the Project components are as follows:

Total Project Cost by Component	
Project Component	Estimated Cost with 20% Contingency
Excavating & Grading	1,500,000
Construction of Green & Wood Processing Plant	3,500,000
Compactors	1,000,000
Total	6,000,000

Construction for Phase IV will proceed immediately after the final cap/closure of the Phase III landfill, projected for April/May of 2023. Phase IV is expected to be completed within 12 months from groundbreaking. Built into the Project costs the City has included contingencies of 26% of hard cost for the Excavating & Grading, construction of the processing plant and for the Compactor.

The Solid Waste Fund plans to significantly expand organics recycling in conjunction with Phase IV, due to recent State legislation state that mandates the diversion of organic wastes from landfills (namely AB 1826 and SB 1383).

SYSTEM DESCRIPTION

System Infrastructure

The City of Watsonville provides a full range of integrated solid waste management services from garbage, compactor, recycling, yard waste services, source reduction and disposal. It offers customers convenient green waste and trash collection services. The Fund collects garbage and recyclables from over 10,000 homes and businesses each week.

Capital Improvement Plan

The City has planned approximately \$13.6M in Solid Waste Fund capital expenditures between FY 2021 and FY 2026, or \$2.3 million per year on average. The most significant CIP project costs include Phase IV (\$6M in FY 2024), closure of Phase III (\$2.6M in FY 2023), and the replacement of collection vehicles (\$2.0M, completed in FY 2021). Besides \$1.8M of equipment financing in FY 2021 for the vehicles, and the current ISRF request, the Fund has no additional borrowing plans for the period.

System User and Rate Structure

The following table displays the Number of Users by Category and reflects stability in the number of users. The City of Watsonville is largely built out, and no material changes are expected in service demand over the next 5 years. The table further reflects a high proportion of residential users, which is consistent with the residential nature of the City and provides a stable anchor to its user base.

NUMBER OF USERS BY CATEGORY					
For Fiscal Year Ending (FYE) June 30	2018	2019	2020	2021	2022
Residential	697	9,711	9,702	9,762	9,781
Commercial	932	937	937	931	923
Industrial	4	3	4	4	3
Total	1,633	10,651	10,643	10,697	10,711
% change	N/A	552.2%	-0.1%	0.4%	0.1%

Source: Financing Application Addendum

The table below displays Current System Usage and Revenue as of June 30, 2022. Residential customers represent approximately 52% of the Total Gross Annual Revenues.

CURRENT SYSTEM USAGE & REVENUE				
	Annual Usage	% Annual Usage	Gross Annual Revenue	% Gross Annual Revenue
Residential	28,284,960	36.0%	\$8,335,307	51.6%
Commercial	48,683,299	62.0%	\$7,133,474	44.1%
Industrial	1,570,865	2.0%	\$273,109	1.7%
Other		0.0%	\$417,339	2.6%
Total	78,539,124	100.0%	\$16,159,229	100.0%

Source: Financing Application Addendum

The following table displays the Top 10 System Users and reflects that the City complies with IBank’s underwriting criteria requirements that revenues derived from the top ten ratepayers not exceed 50% of total revenues, and that no single ratepayer generates 15% or greater of the System’s annual revenues.

TOP TEN LARGEST SYSTEM USERS AS OF OCTOBER 4, 2022				
	User	% System Use	% System Revenues	Customer Class (Residential/ Commercial/ Industrial/Other)
1	Meadow View Apartments	0.008%	0.008%	Residential
2	Meadow Manor	0.008%	0.008%	Residential
3	Sunny Meadow Apartments	0.008%	0.008%	Residential
4	Del Mar Foods, Inc.	0.007%	0.007%	Industrial
5	S. Martinelli & Company	0.006%	0.006%	Industrial
6	Pajaro Hills Retail	0.006%	0.006%	Commercial
7	Field Fresh Distribution	0.005%	0.005%	Industrial
8	Clifford Manor	0.005%	0.005%	Residential
9	Portola Heights Mobile Estates	0.004%	0.004%	Residential
10	Stone Creek Apartments	0.004%	0.004%	Residential
Total		0.061%	0.061%	

Source: Financing Application Addendum

The following table displays the Historical Average Monthly User Charge Per Residential Unit from FY 2018-19 through FY 2022-23.

HISTORICAL AND CURRENT AVERAGE MONTHLY USER CHARGE PER RESIDENTIAL UNIT					
For Fiscal Year Ending (FYE) June 30	FY 2018 -19	FY 2019-20	FY 2020 -21	FY 2021-22	FY 2022-23
Residential	\$53.15	\$57.41	\$57.41	\$59.82	\$64.30
% change	N/A	8.02%	0.00%	4.20%	7.49%
% of MHI (\$61,496)	0.75%	0.81%	0.81%	0.85%	0.91%

Source: Financing Application Addendum

Rate increases were suspended in 2020 due to the COVID 19 pandemic

The following table displays the Projected Average Monthly User Charge Per Residential Unit from FY 2022-23 through FY 2026.

PROJECTED AVERAGE MONTHLY USER CHARGE PER RESIDENTIAL UNIT				
For Fiscal Year Ending (FYE) June 30	FY 2022 - 23	FY 2023 - 24	FY 2024 - 25	FY 2025 - 26
Residential	\$64.30	\$69.13	\$72.58	\$76.21
% change	0.00%	7.51%	4.99%	5.00%

Source: City of Watsonville Public Works & Utilities

The following table displays the City's Average Monthly System User Charge compared to nearby systems as of July 1, 2022. The City states the cost comparisons are difficult to compile since there are various structures to local solid waste systems, e.g. a stand-alone enterprise Fund, "wastewater enterprise Fund" combined with a solid waste system, etc. Watsonville projects its customer growth at 0.52 percent rate to all weekly pickup services over the next five years. This is consistent with account growth assumptions used in the water rate study and wastewater rate study.

The City of Watsonville has an average monthly residential rate of \$64.30 which is 8% higher than the average of rates in the nearby systems, however still below the highest rate of \$77.25 currently for the City of Santa Cruz which is 30% higher than the average rate of nearby systems. The City has completed the Prop 218 process for rate increases and the increase has been approved by the City Council and voters.

CURRENT AVERAGE MONTHLY SYSTEM USER CHARGE COMPARED TO NEARBY SYSTEMS		
System Name	Average Monthly Residential Rate	Percentage of Average Monthly Charge
City of Watsonville	\$64.30	108.0%
City of Santa Cruz	\$77.25	129.7%
Santa Cruz County	\$61.28	102.9%
Scotts Valley	\$54.08	90.8%
City of Capitola	\$39.79	66.8%
City of Gilroy	\$60.58	101.7%
Average	\$59.55	

Source: Financing Application Addendum

Rate information

The City's current solid waste rates have been in effect since July 2019. A rate study was completed and the City has approved rate increases for the subject Project by 7.5% for the first 3 years beginning FY 2022 and a 5.0% increase in FY 2025 and FY 2026. The City plans on increasing rates by 5% in FY 2027. This will need to go through the Prop 2018 and approval process and it is expected that they will do so.

RATE INCREASES FOR THE NEXT FIVE YEARS		
Fiscal Year	Effective Date	Percent Increase
FY 2022	FY 2021	7.50%
FY 2023	FY 2022	7.50%
FY 2024	FY 2023	7.50%
FY 2025	FY 2024	5.00%
FY 2026	FY 2025	5.00%

Source: Financing Application Addendum

CREDIT ANALYSIS

The source of financing repayment will be revenues from the Solid Waste Fund (Fund) of the City of Watsonville. The Fund is an Enterprise Fund within the City government. IBank staff reviewed audited financial statements for the Fund, as presented in the City's Annual Comprehensive Financial Reports (ACFRs), for fiscal years 2017 through 2021, and summarized in Exhibits 1 and 2.

Since the Fund comprises part of the broader City Government, Staff briefly addresses broader financial performance for the City of Watsonville below, before analyzing Fund financials in greater detail.

Citywide Financial Statement Highlights

Government-wide performance

On a Government-wide basis (consisting of all Governmental and Business-type activities, including the Fund), the assets of the City of Watsonville exceeded its liabilities at the end of FY 2021 by \$250.4 million. The majority of this net position was invested in capital assets (e.g. land, buildings, machinery, and other infrastructure). The City's liabilities totaled \$134.6M, which consist mostly of long-term liabilities, various payables, unearned revenue, and smaller liabilities. Their low liabilities balance has contributed to their exceptionally strong cash balance and strong current ratios.

The Government-wide net position increased by \$8.2M year-over-year. This includes a Governmental activities increase of \$3.605M, due mostly to the receipt of the American Rescue Plan Act (ARPA) monies. Business-type activities net position increased by \$4.606M, largely reflecting the transfer of Municipal Services to the Solid Waste Fund.

Governmental funds' performance

The Governmental funds presentation focuses on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. The General Fund is a main component of governmental funds and is a city's chief operating fund. At the end of FY 2021, Watsonville's Governmental funds reported combined ending fund balances of \$42.9M, an increase of \$4.1M over the prior fiscal year. The non-spendable portion of the fund balance was \$308,000 the restricted portion was \$24.7M and the unassigned amount was \$17.8M. The General Fund balance increased by \$1.7M, to \$18.3M, on the strength of increased revenue from sales and property taxes and other sources, combined with decreases in operating costs from a controlled spending initiative.

Solid Waste Fund

Ratio Analysis

Following are some key economic and financial ratios for Watsonville and the Solid Waste Fund:

Ratio Analysis						
(\$000)	as of FYE June 30	2017	2018	2019	2020	2021
Median Family Income (as % of US Median)		89%	89%	88%	ND	ND
Cash Balance	\$	6,576	\$ 7,421	\$ 8,185	\$ 8,828	\$ 8,556
Operating Revenue	\$	11,225	\$ 12,549	\$ 13,493	\$ 14,587	\$ 18,310
Cash Balance as % of Operating Revenue		58.6%	59.1%	60.7%	60.5%	46.7%
Current Ratio		9.6	5.2	15.0	21.9	8.9
Leverage Ratio		3.9	5.1	2.6	1.5	2.5
Operating Margin		2.8%	-1.3%	13.4%	15.2%	-4.7%

Comparative Balance Sheet Analysis (Exhibit 1):

The Fund has maintained Cash and Investment accounts over \$8M in the most recent three fiscal years, contributing to strong liquidity. The Current Ratio (current assets divided by current liabilities) reflects the Fund's strong liquidity, remaining at 5.2 times or better in all years reviewed. While the ratio declined in FY 2021 mainly due to an increase in accounts payable, the figure remained strong.

Restricted cash in FY 2021 of \$1,791,383 represents the proceeds of an equipment loan from Bank of America to purchase new vehicles. The financing will be repaid over the course of six years, with annual debt service

Total assets increased overall by \$6.4M or 56.2% over the five years reviewed, to \$17.7M in FY 2021. Cash and Investments and Accounts Receivables had significant increases tied to the increasing Operating Revenues year over year.

The Leverage Ratio (total liabilities divided by net position) fluctuated but has generally remained at a healthy level, especially for the last three years. The high ratio of 5.1x in FY 2018 was mainly due to the increase in net pension liability, based on an accounting change.

Total Liabilities increased by \$3.7M or 38.3% for the 5 years reviewed. The two main contributing factors for this increase were the costs of landfill closures and Net Pension Liabilities. Phase III received its last load of Municipal Solid Waste on September 11, 2020, before closing. The ongoing costs of the closure process have been spread over several years in the Fund's annual budget, through FY 2023.

Over the five-year period Fund Net Position grew 114%. However, in FY 2021 the Fund Net Position declined by \$893,160 or 14.36% from the prior year. This was largely due to the impact of moving the Muni Service Center (MSC) from the General Fund to the Solid Waste Fund along with the reporting of pension liabilities (further details in the Comparative Income Statement Analysis Section below).

Solid Waste Fund Debt

The Fund's existing debt obligations are summarized below:

CITY OF WATSONVILLE - SOLID WASTE FUND DEBT					
Debt Issued	Date Issued	Maturity	Amount Issued	Outstanding Balance	Purpose of Debt
Landfill - PG&E 2019 Solid Waste Fund Note	6/30/2019	6/30/2026	\$9,110	\$5,344	Repay PG&E
Equipment Loan	3/12/2021	6/1/2026	\$1,809,432	\$1,321,852	Bank of America
		Total	\$1,818,542	\$1,327,196	

The total combined annual payments for the two loans above are \$339,151. Combined with the requested ISRF financing, total Max Annual Debt Service Payment would be \$735,529. Each of the loans above will be paid off in FY 2026. While future indebtedness is possible, the City currently has no further borrowing plans for the Fund and will seek to rely primarily on rate increases and cash reserves to fund future capital purchases. The Fund also maintains a capital reserve targeted at 2% of the replacement cost of capital assets.

Comparative Income Statement Analysis (Exhibit 2):

Operating Income (before non-operating items and transfers) was positive in three of the last five years. From FY 2018 to FY 2021 the Fund's expenses grew from \$12.7M to \$19.2M, due to factors described above. Though revenues also grew, the Fund posted an operating loss of \$191,677 in FY 2018 and a \$879K loss in FY 2021.

The Fund's average Operating Margin (the Operating Result as a % of Operating Revenues) is 5.11% in the years reviewed. While operating margins were negative in FYs 2018 and 2121 due to respective expense increases mentioned above, the cumulative operating surplus over the five-year period was \$2.8M, and the Fund's Net Position has remained strong.

Revenues

From FY 2017 to FY 2020, Fund Revenues increased \$3.4M, an average of 8% each year due to consistent increases in Charges for Services and the growth of the City with new housing and business developments.

However, in FY 2021 Fund revenues show a significant growth of \$3.7M, an increase of over 20%. Along with the City's growth, this increase is also attributed to the following:

- Revenues include the 7.5% rate increase that is in place for FY 2021.
- A \$2,318,243 compensation to the Fund from the General Fund, for the Municipal Service Center (MSC) expenses (slightly higher than the actual expenses of \$2,182,435). Please see more details in the Expenses section below.
- \$1,082,962 that was from proceeds of an equipment loan draw that was inaccurately accounted for as revenue.

Expenses

In FY 2018, the pension obligation costs were higher by \$806,000 over FY 2017, which contributed to the operating loss of \$161,472. As noted, that CalPERS reduced the discount rate for net pension liability calculations, which in the case of the Fund prompted an increase in both pension-related expenses and liabilities. At least in the short-term, however, this accounting change had no cash impact.

Total Operating Expenses increased even more dramatically than Revenues in FY 2021, resulting in the \$879K operating loss. This is attributed to the following:

- Costs related to the rollout of the SB1383 organics program, including \$350k of operating expense (projected to be ongoing), and \$400k of upfront costs (e.g. procuring 35-gallon carts at a cost of \$290k).
- Increased compensated absences \$101,611
- Other Contract Services \$723,545
- Other Supplies \$137,000
- Cost Allocation Recovery increases \$376,155
- Pension Liability cost of \$1,356,173 for MSC included in operating expenses (not reimbursed by the city, however, expected in the coming months.)
- The City corporation yard fleet shop MSC mechanics crew was moved into the Solid Waste Fund, which added about 7-8 positions. The \$2,182,435 expense included staff costs for MSC staff. The City has since moved the MSC to an Internal Service Fund. MSC related expenses are therefore non-recurring in future years. Later the City was compensated for the MSC related expenses as \$2,318,243 as this was deposited into FY 2021 Fund revenues, these transactions were essentially a wash. (As mentioned earlier)

Consistent with City requirements, the Fund must maintain adequate cash reserves to meet operating, capital, and debt service requirements. The current operating reserve target is equal to 25 percent of annual O&M expenses or three months of working capital. The City is in compliance with the required operating reserve target.

Repayment Analysis

Historical Cash Flow Analysis

SOLID WASTE FUND CASH FLOW						
For Fiscal Year Ending (FYE) June 30		2017	2018	2019	2020	2021
Operating Income (Loss)		\$272,964	(\$191,667)	\$1,592,274	\$2,020,490	(\$879,077)
Transaction Specific Adjustments						
+ Depreciation		\$581,755	\$648,588	\$664,952	\$609,326	\$750,401
+ Grant Revenue		\$12,280	\$5,148	\$14,011	\$22,477	\$22,614
+ Interest Revenue		\$53,386	\$42,170	\$233,337	\$179,514	\$6,820
+ Interest Expense		(\$24,686)	(\$17,123)	(\$25,305)	\$0	(\$3,838)
+ Adjustment for Equipment Loan draw included in revenues						(\$1,082,962)
+ Non-recurring MSC Adjustment for MSC costs in expenses						\$2,182,435
+ Adjustment for MSC related reimbursement included in Revenues						(\$2,318,244)
+ Adjustment for MSC Staff Pension Liability in expenses						\$1,356,173
Total of all Adjustments		\$622,735	\$678,783	\$886,995	\$811,317	\$913,399
Cash Available for Debt Service		\$895,699	\$487,116	\$2,479,269	\$2,831,807	\$34,322
Debt Service Calculation						
Total Existing MADS Debt Service		\$339,151	\$339,151	\$339,151	\$339,151	\$339,151
Proposed IBank MADS ⁽¹⁾		\$396,378	\$396,378	\$396,378	\$396,378	\$396,378
Total Obligations MADS		\$735,529	\$735,529	\$735,529	\$735,529	\$735,529
Debt Service Coverage Ratio ⁽²⁾		1.22	0.66	3.37	3.85	0.05
⁽¹⁾ Calculated at \$6,000,000 at all-in rate of 4.23% for 25 years						
⁽²⁾ Existing Parity Debt Minimum Required DSCR 1.20						

The chart above shows estimated Maximum Annual Debt Service (MADS), based on the Fund's existing debt and the ISRF financing, measured against historical cash flows over the last five years. The chart demonstrates the Fund's ability to meet our minimum debt service coverage ratio (DSCR) target of 1.20x in three of the five years reviewed. However, due to the costs associated with the rollout of the SB1383 organics program, if deducted, DSCR would be over 2.00X. See the preceding section for detail on historical performance.

The following are the adjustments made to the cash flow as seen in the chart above:

- Depreciation a non-cash expense was added back
- Grant Revenues are Nonoperating Revenues related to the processing of oil at the Transfer Center were also added back. Per the City, these grants are not competitive. It is sufficient to show that oil is processed, and the City has been receiving these grants from the Department of Resources, Recycling and Recovery (CalRecycle) for many years.
- Interest Revenue, a Nonoperating Revenue, is ongoing and tied to Cash and Investments.
- Interest expense, a Nonoperating expense was deducted as it relates to prior debt.
- A \$1,082,962 negative adjustment was made to reverse the impact of the inadvertent inclusion of equipment loan proceeds as Revenue in FY 2021.

In FY 2021 the City transferred the corporation yard fleet shop and mechanics crew, known as the MSC, from the general government to the Solid Waste Fund, which added about 7-8 positions. The City has since transferred the MSC yet again, to an Internal Service Fund, moved the additional headcount with it. The following were adjustments made in the cash flow table above related to the MSC in FY 2021:

1. Addback for MSC costs included in operating expenses that are non-recurring of \$2,182,435

2. Deduction of \$2,318,244 of reimbursement from the City into Revenues. Note that adjustments 1 and 2 are essentially a wash.
3. Addback of Pension Liability of \$1,356,172 for MSC included in operating expenses not reimbursed by City. A reimbursement is expected in the coming months.

The Solid Waste Fund shows adequate cash flow in three of the five years reviewed.

NOTE: Staff received the unaudited Statement of Net Position for the Fund for FY 2022 – Exhibit # 5. The final audited FY 2022 ACFR is not yet available. Not considering the FY 2021 numbers, (which were an anomaly due to MSC adjustments and debt proceeds and other related non-recurring items), and comparing the unaudited Fund FY 2020 to FY 2022, we see a 10.4% growth in revenues which includes the 7.5% rate increase; 5.3% operating expenses growth, and net operating income of \$2.9M which is higher than FY 2019 and 2020. So it appears in FY 2022 the Fund has normalized.

Cash Flow Projections

Cash flow projections for the Fund from FY 2023 through FY 2027 were provided by the City and appear in Exhibit 3.

The chart below shows the projected cash flow for the Fund.

PROJECTED SOLID WASTE FUND CASH FLOW					
For Fiscal Year Ending (FYE) June 30	2023	2024	2025	2026	2027
Operating Income (Loss)	\$143,063	\$457,638	\$750,096	\$1,070,123	\$1,340,884
Transaction Specific Adjustments					
+ Depreciation	\$1,093,401	\$1,093,401	\$1,158,401	\$1,216,321	\$1,277,137
+ Grant Revenue	10,000	\$10,000	\$10,000	\$10,000	\$10,000
+ Interest Revenue	\$73,534	\$60,585	\$73,521	\$61,494	\$77,197
Total of all Adjustments	\$1,176,935	\$1,163,986	\$1,241,922	\$1,287,815	\$1,364,334
Cash Available for Debt Service	\$1,319,998	\$1,621,624	\$1,992,018	\$2,357,938	\$2,705,218
Debt Service Calculation					
Total Existing MADS Debt Service	\$339,151	\$339,151	\$339,151	\$339,151	\$339,151
Proposed IBank MADS ⁽¹⁾	\$396,378	\$396,378	\$396,378	\$396,378	\$396,378
Total Obligations MADS	\$735,529	\$735,529	\$735,529	\$735,529	\$735,529
Debt Service Coverage Ratio ⁽²⁾	1.79	2.20	2.71	3.21	3.68

⁽¹⁾ Calculated at \$6,000,000 all-in rate of 4.23% for 25 years.

⁽²⁾ Existing Parity Debt Minimum Required DSCR 1.20

The projections reflect the following assumptions provided by the City:

Revenue assumptions:

- Revenues reflect the approved rate increase schedule, including annual 7.5% rate increases in FY 2023 and through FY 2024, and 5% increases for FY 2025 and FY 2026. (Note: Annual revenue growth does not precisely match the rate increases, as the revenues include some adjustments due to related revenues and growth). The City plans on increasing rates by 5% in FY 2027 as reflected in the projections, and as mentioned earlier, that would need to go through the Prop 2018 and approval process and it is expected that they will do so and be successful.
- Interest earnings were assumed at 1.5%.
- Grant Revenues were conservatively projected at \$10K per year.
- Note that a reimbursement of the MSC related Pension Liability of \$1,356,172 is expected to be made by City to the Fund in the coming months. This was not included in the projections, however the additional funds would be available to the District.

Expense Assumptions:

Since FY 2021 was an unusual year due to adjustments related to MSC, pension obligation expense, and equipment loan proceeds, FY 2022 was used as the base year and the projected expenses in FY 2023 through FY 2027 reflect the following assumptions:

- Inflation factors of 3% for most general expenditures and 5% for personnel.
- The ongoing annual operating expense of \$350K related to the rollout of the SB1383 organics program is included.
- An annual 5% increase (for each of the next 5 years) to their disposal contract with Monterey Regional Waste Management District for Organic and Recycles will continue. The part of the contract that will no longer continue will be the hauling costs of regular garbage to landfill.

Note that the costs associated with the hauling of the waste to the MRWMD of \$180K per year will be saved with the completion of this Project. These savings to expenses have not been included in the cash flow chart above. This would be additional funds available.

Projected cash flow and adjustments

The following are the adjustments made reflected in the projected cash flow chart above:

- Depreciation was included in operating expenses and was added back.
- Grant Revenues are included at \$10K each year 2023 to 2027. These are related to the processing of oil at the Transfer Center. Per the City this is a conservative estimate.
- Interest Revenue is added to cash flow as it is ongoing and tied to Cash and Investment accounts.

The projections show that with the approved rate increases, the Fund will have adequate monies to cover the proposed debt service in all the projected years.

Fund reserves over the next four years are estimated to range from \$4.7M to \$5.2M in FY 2026. Projected cash flows reflect coverage ratios over 1.79X in all projected years.

The Fund has healthy cash balances as of FY 2021 of over \$8.5M that can be used to partially offset unforeseen expenses and losses if they were to occur. It is also taking several steps to mitigate cost by actively paying down unfunded liabilities, focusing on investing in one-time projects, controlling operational growth and looking for long-term operational efficiencies.

Note: a Debt Service Reserve equivalent to one year of payments will be required for this project. The Debt Service Reserve of debt service est. (\$396.4K) will be in place for at least three years after the project is completed and operational, subject to timely lease payment. The District has stated that they can create the reserve fund from current available reserves.

Strengths and Weaknesses

Strengths:

- The foremost strength of the City of Watsonville is their relatively low debt burden. The Solid Waste Fund which only has a small debt to PG&E and a \$1.3M equipment loan with Bank of America, with no additional borrowing plans beyond the ISRF request.
- Revenues have been consistently increasing year to year (average increase of 8% in FY 2018 to FY 2020 and 10.4% from FY 2020 to FY 2022 based on the unaudited Statement of Net Position for the Fund).
- Rate increase revenues projected over 6 years (FY 2022 through FY 2027) show more than adequate Funds to service new debts and sufficient to maintain the minimum required DSCR of 1.20.
- The repayment source for the loan will be the net revenues of the Solid Waste Fund. Historical financial statements and projections show that the Fund can cover the new debt service payments. Projected DSCR for FY 2023 through FY 2027 is above 1.79 in all years.

Weaknesses:

- The City is not prohibited from incurring additional obligations payable from the Fund.
- Cash flow in two of the five years reviewed did not meet a minimum 1.20 DSCR. Mainly due to a pension-related accounting adjustments and for FY 2021 due to the rollout of SB 1383 expenses.

Mitigating Factors:

- Included in the terms and conditions will be a standard DSCR covenant that will require that no additional borrowings will be allowed that would render the DSCR less than 1.20X.
- Fund reserves over the next four years are estimated to range from \$4.7M to \$5.2M in FY 2026.

Compliance with IBank Criteria, Priorities, and Guidelines

The application and the proposed financing are in accordance with IBank Criteria, Priorities and Guidelines (ISRF Criteria).

- The total Fund debt service obligation (inclusive of the Financing) is less than 15% of the City's Total Revenues for FY 2021.
- The Fund adequately covers existing expenditures, financing obligations, and the proposed IBank debt payments.
- The blended useful life of the Project is over 25 years and exceeds the term of this Financing.

Exceptions - None noted.

STAFF RECOMMENDATION

Staff recommends approval of Resolution No. 22-20 authorizing ISRF Program financing to the City of Watsonville for the Landfill Phase IV Construction Project:

1. **Applicant/Borrower:** City of Watsonville
2. **Project:** Landfill Phase IV Construction Project
3. **Amount of ISRF Program Financing:** \$6,000,000
4. **Maturity:** Twenty-Five (25) years
5. **Repayment/Security:** The ISRF Program financing (Financing) would be secured by a senior lien on the City's Solid Waste revenues (Net Revenues) and all legally available amounts in the City's Solid Waste Fund (Fund).
6. **Interest Rate:** All-in 4.23% (including a 0.30% annual servicing fee)
7. **Fees:** The City to pay the origination fee of 1.00%, \$60,000 upon loan closing, and an annual servicing fee of 0.30% of the outstanding principal balance.
8. **Not an Unconditional Commitment:** IBank's resolution shall not be construed as unconditional commitment to finance the Project, but rather IBank's approval pursuant to the resolution is conditioned upon entry by IBank and the Borrower into an ISRF Program financing agreement (or agreements), in form and substance satisfactory to IBank.
9. **Limited Time:** If approved by the Board, the Board's approval expires 90 days from the date of its adoption. Thus, the Borrower and IBank must execute a financing agreement no later than 90 days from such date. Once the approval has expired, there can be no assurances that IBank will be able to grant the loan to the Borrower or consider extending the approval period.
10. **ISRF Program Financing Agreement Covenants and Conditions:** The Financing Agreement shall include, among other things, the following covenants:
 - a. A debt service Financing Reserve Fund will be required for a year of debt service, to remain in place for a period of at least three years after the project construction is complete, subject to timely lease payment.

- b. The City will be required to maintain rates and charges in an amount sufficient to ensure that Net Revenues produce a minimum 1.20 times aggregate maximum annual debt service ratio for obligations on parity with the Financing.
- b. The Fund has no senior liens and the City will be prohibited from issuing future debt senior to the Financing.
- c. Parity debt will be allowed if Net Revenues amount to at least 1.20 times the Maximum Annual Debt Service (MADS) taking into consideration the MADS payable in any Fiscal Year on all existing debt and the proposed parity debt.
- e. Subordinate debt will be allowed if Net Revenues are at least 1.00 times the sum of the MADS on all outstanding debt, payable from the Fund.
- f. The City will covenant against reducing rates below levels used for all debt service payable from the Fund, and to take actions to increase rates or Fund a rate stabilization Fund if the debt service coverage ratios fall below required levels.
- f. Upon implementing rates and charges, the City to covenant to ensure that its rate structure conforms to the requirements of Proposition 218 and those of the statutes implementing it and the cases interpreting it. Further, the City to covenant to notify IBank immediately upon the filing of any legal challenge to its rates or charges.
- g. The City to comply with the requirements of the Criteria and all applicable laws, regulations, and permitting requirements associated with public works projects.
- h. The City to provide to IBank annually within 180 days of the end of each of the City's fiscal year a copy of its audited financial statements together with an annual certificate demonstrating compliance with the foregoing covenants, as well as any other information as IBank may request from time to time.

EXHIBITS

EXHIBIT 1

Summary of the Fund's Comparative Balance Sheet for the last five fiscal years:

CITY OF WATSONVILLE										
SOLID WASTE FUND										
PROPRIETARY FUNDS STATEMENT OF NET POSITION										
For Fiscal Year Ending (FYE) June 30	2017		2018		2019		2020		2021	
Source:	ACFR	%	ACFR	%	ACFR	%	ACFR	%	ACFR	%
ASSETS AND DEFERRED OUTFLOW OF RESOURCES										
Current Assets										
Cash and Investments	\$6,576,218	57.9%	\$7,421,293	59.2%	\$8,184,895	60.9%	\$8,828,497	68.6%	\$8,556,494	48.3%
Cash and Investments with fiscal agent	56	0.0%	18,678	0.1%	40,462	0.3%				
Restricted Cash									1,791,383	
Restricted Assets:										
Accounts	340,192	3.0%	312,212	2.5%	364,567	2.7%	618,507	4.1%	753,651	4.3%
Intergovernmental	5,018	0.0%	9,768	0.1%	2,408	0.0%	9,665	0.1%		
Inventories	93	0.0%	1,958	0.0%	1,974	0.0%	1,209	0.0%	862	0.0%
Total Current Assets	\$6,921,577	61.0%	\$7,763,909	62.0%	\$8,594,306	64.0%	\$9,457,878	62.8%	\$11,102,390	62.6%
Noncurrent Assets										
Cash and Investments with fiscal agent	40,462	0.4%	40,462	0.3%						
Advances receivable	325,047	2.9%	263,698	2.1%	224,788	1.7%	185,900	1.2%	137,302	0.8%
Capital Assets:										
Land and Improvements	1,457,959	12.8%	1,769,391	14.1%	1,769,401	13.2%	1,769,401	11.7%	1,769,401	10.0%
Buildings	1,686,242	14.9%	1,705,352	13.6%	1,844,609	13.7%	1,844,609	12.2%	1,846,282	10.4%
Machinery and equipment	9,152,819	80.8%	9,869,356	78.8%	10,555,794	78.8%	11,410,276	75.8%	12,704,698	71.7%
Construction in Progress									153,797	0.9%
Accumulated Depreciation	(8,234,825)	-72.8%	(8,885,734)	-70.9%	(9,550,686)	-71.1%	(9,606,087)	-83.8%	(9,985,753)	-56.3%
Total Capital Assets (Net of accumulated depreciation)										
Total Non Current Assets	4,427,704	39.0%	4,762,525	38.0%	4,843,906	36.0%	5,604,099	37.2%	6,625,727	37.4%
Total Assets	11,349,281	100.0%	12,526,434	100.0%	13,438,212	100.0%	15,061,977	100.0%	17,728,117	100.0%
DEFERRED OUTFLOWS OF RESOURCES										
Total Deferred Outflow of Resources	\$1,066,241	9.4%	\$1,616,422	12.9%	\$1,097,181	8.2%	\$828,189	5.5%	\$975,093	5.5%
Total of All Assets	\$11,349,281	100.0%	\$12,526,434	100.0%	\$13,438,212	100.0%	\$15,061,977	100.0%	\$17,728,117	100.0%
Liabilities										
Accounts Payable	229,867	2.0%	977,415	7.8%	356,197	2.7%	174,183	1.2%	624,823	3.5%
Accrued personnel costs	175,223	1.5%	188,821	1.5%	190,268	1.4%	218,309	1.4%	270,984	1.5%
Interest Payable	1,249	0.0%	960	0.0%						
Retention Payable	15,571	0.1%							5,559	
Unearned Revenue			14,011		14,754		25,116			
Current maturities of long term debt:										
Compensation absences	13,844	0.1%	13,201	0.1%	12,953	0.1%	12,571	0.1%	18,234	0.1%
Liability for landfill closure	59,500	0.5%	59,500	0.5%						
Revenue Bonds	225,584	2.0%	235,388	1.9%					324,030	1.8%
Note Payable							1,458	0.0%		
Total Current Liabilities	\$720,838	6.4%	\$1,489,296	11.9%	\$574,172	4.3%	\$431,637	2.9%	\$1,243,630	7.0%
Noncurrent Liabilities										
Compensated Absences	216,891	1.9%	206,811	1.7%	202,926	1.5%	196,942	1.3%	285,666	1.6%
Post Retirement	409,804	3.6%	435,598	3.5%	435,598	3.2%	461,290	3.1%	461,290	2.6%
Liability for Landfill closure	3,512,409	30.9%	3,543,705	28.3%	3,661,020	27.2%	3,698,421	24.6%	3,680,437	20.8%
Net Pension Liability	4,551,656	40.1%	5,996,529	47.9%	5,448,977	40.5%	4,746,052	31.5%	6,344,783	35.8%
Revenue Bond Payable (Net of capitalized discounts)	235,388	2.1%								
Note Payable					5,430	0.0%	6,802	0.0%	1,327,196	7.5%
Total Long Term Liabilities	8,926,148	78.8%	10,182,643	81.3%	9,753,951	72.6%	9,109,507	60.5%	12,099,372	68.2%
Total Liabilities	9,646,986	85.0%	11,671,939	93.2%	10,328,123	76.9%	9,541,144	63.3%	13,343,002	75.3%
Deferred Inflows of Resources										
Pension	284,645	2.5%	196,110	1.6%	165,984	1.2%	129,966	0.9%	34,312	0.2%
Total Deferred Inflows of Resources	\$284,645	2.5%	\$196,110	1.6%	\$166,984	1.2%	\$129,966	0.9%	\$34,312	0.2%
Net Position:										
Net Investment in Capital Assets	3,601,223	31.7%	4,222,977	33.7%	4,613,688	34.3%	5,409,939	35.9%	4,837,199	27.3%
Unrestricted	(1,117,332)	-9.8%	(1,948,170)	-15.6%	(572,402)	-4.3%	809,117	5.4%	488,697	2.8%
Net Position	\$2,483,891	21.9%	\$2,274,807	18.2%	\$4,041,286	30.1%	\$6,219,056	41.3%	\$5,325,896	30.0%
Deferred Outflows of Resources										
Total Liabilities and Fund Balance	\$11,349,281	100.0%	\$12,526,434	100.0%	\$13,438,212	100.0%	\$15,061,977	100.0%	\$17,728,117	100.0%

EXHIBIT 2

The Fund's Comparative Statement of Revenues, Expenses, and Changes in Fund Balance for the last five years:

SOLID WASTE FUND										
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION										
For Fiscal Year Ending (FYE) June 30	2017		2018		2019		2020		2021	
Source:	ACFR	%	ACFR	%	ACFR	%	ACFR	%	ACFR	%
% Change		N/A		11%		7%		8%		20%
Operation Revenue										
Charges for Services	\$11,224,562	100.0%	\$12,549,221	100.0%	\$13,492,713	100.0%	\$14,587,248	100.0%	\$18,310,251	100.0%
Total Operating Revenues	\$11,224,562	100.0%	\$12,549,221	100.0%	\$13,492,713	100.0%	\$14,587,248	100.0%	\$18,310,251	100.0%
Operating Expenses										
Costs of sales and services	10,369,843	92.4%	12,092,300	96.4%	11,235,487	83.3%	11,957,432	82.0%	18,438,927	100.7%
Depreciation	581,755	5.2%	648,588	5.2%	664,952	4.9%	609,326	4.2%	750,401	4.1%
Total Operating Expenses	\$10,951,598	97.6%	\$12,740,888	101.5%	\$11,900,439	88.2%	\$12,566,758	86.1%	\$19,189,328	104.8%
Operating Income (Loss)	\$272,964	2.4%	(\$191,667)	-1.5%	\$1,592,274	11.8%	\$2,020,490	13.9%	\$ (879,077.00)	-4.8%
Nonoperating Revenues (Expenses)										
Grant Revenue	\$12,280	0.1%	\$5,148	0.0%	\$14,011	0.1%	\$22,477	0.2%	\$22,614	0.1%
Interest Revenue	\$53,386	0.5%	\$42,170	0.3%	\$233,337	1.7%	\$179,514	1.2%	\$6,820	0.0%
Interest Expense	(\$24,686)	-0.2%	(\$17,123)	-0.1%	(\$25,305)	-0.2%			\$ (3,838.00)	0.0%
Net Non-operating Revenues (Expenses)	\$40,980	0.4%	\$30,195	0.2%	\$222,043	1.6%	\$201,991	1.4%	\$25,596	0.1%
Income (Loss Before Operating Transfers)	\$313,944	2.8%	(\$161,472)	-1.3%	\$1,814,317	13.4%	\$2,222,481	15.2%	\$ (853,481.00)	-4.7%
Capital Contributions and Transfers										
Transfer Out	(\$42,461)		(\$47,612)		(\$47,838)		(\$44,711)		(\$39,679)	
Total Contributions and Transfers	(\$42,461)		(\$47,612)		(\$47,838)		(\$44,711)		(\$39,679)	
Increase (decrease) in Net Position	\$271,483		(\$209,084)		\$1,766,479		\$2,177,770		\$ (893,160.00)	
Beginning Net Assets	2,386,508		2,483,891		2,274,807		4,041,286		6,219,056	
Pror period adjustments	(174,100)									
Total Net Position - Ending	\$2,483,891		\$2,274,807		\$4,041,286		\$6,219,056		\$5,325,896	

EXHIBIT 3

CITY OF WATSONVILLE - SOLID WASTE FUND PROJECTIONS										
30-Jun	2023		2024		2025		2026		2027	
Source:	Projections	%	Projections	%	Projections	%	Projections	%	Projections	%
% Change		7%		7%		5%		5%		10%
Operation Revenue										
Charges for Services	\$17,258,523	100.0%	\$18,581,733	100.0%	\$19,584,653	100.0%	\$20,634,826	100.0%	\$21,666,567	100.0%
Total Operating Revenues	\$17,258,523	100.0%	\$18,581,733	100.0%	\$19,584,653	100.0%	\$20,634,826	100.0%	\$21,666,567	100.0%
Operating Expenses										
Costs of sales and services	16,022,059	92.8%	17,030,694	91.7%	17,676,156	90.3%	18,348,382	88.9%	19,048,546	87.9%
Depreciation	\$1,093,401	6.3%	\$1,093,401	5.9%	\$1,158,401	5.9%	\$1,216,321	5.9%	\$1,277,137	5.9%
Total Operating Expenses	\$17,115,460	99.2%	\$18,124,095	97.5%	\$18,834,557	96.2%	\$19,564,703	94.8%	\$20,325,683	93.8%
Operating Income (Loss)	\$143,063	0.8%	\$457,638	2.5%	\$750,096	3.8%	\$1,070,123	5.2%	\$1,340,884	6.2%
Nonoperating Revenues (Expenses)										
Grant Revenue	10,000	0.1%	\$10,000	0.1%	\$10,000	0.1%	\$10,000	0.0%	\$10,000	0.0%
Interest Revenue	\$73,534	0.4%	\$60,585	0.3%	\$73,521	0.4%	\$61,494	0.3%	\$77,197	0.4%
Net Non-operating Revenues (Expenses)	\$83,534	0.5%	\$70,585	0.4%	\$83,521	0.4%	\$71,494	0.3%	\$87,197	0.4%
Income (Loss Before Operating Transfers)	\$226,597	1.3%	\$528,223	2.8%	\$833,617	4.3%	\$1,141,617	5.5%	\$1,428,081	6.6%
Capital Contributions and Transfers										
Depreciation addback	1,093,401		1,093,401		1,158,401		1,216,321		1,277,137	
Total Contributions and Transfers										
Increase (decrease) in Net Position	\$1,319,998		\$1,621,624		\$1,992,018		\$2,357,938		\$2,705,218	
Actual Existing Debt Service	\$339,151		\$339,151		\$339,147		\$339,147		\$339,147	
Proposed ISRF MADS, 25 yr. term, @ 4.0%	\$396,378		\$396,378		\$396,378		\$396,378		\$396,378	
Total Debt Service	\$735,529		\$735,529		\$735,525		\$735,525		\$735,525	
DSCR	1.79		2.20		2.71		3.21		3.68	

Exhibit 4

CITY OF WATSONVILLE, CALIFORNIA	
SOLID WASTE ENTERPRISE FUND	
STATEMENT OF REVENUES, EXPENSE, AND CHANGES IN	
NET POSITION	
FOR THE FISCAL YEAR ENDED JUNE 30, 2022	
	2022
OPERATING REVENUES:	
Charges for service	16,115,625
OPERATING EXPENSES:	
Costs of sales and service	12,425,815
Depreciation	817,585
Total operating expenses	<u>13,243,400</u>
Operating income	<u>2,872,225</u>
NONOPERATING REVENUES (EXPENSES):	
Interest revenue	37,454
Interest expense	(15,119)
Nonoperating expenses	
Gain on sale of fixed asset	
Grants	21,249
Landfill usage	
Arbitrage	
Bond issuance costs	
Total nonoperating revenues (expense)	<u>43,584</u>
Net income before operating transfers	<u>2,915,809</u>
OPERATING TRANSFERS:	
Operating transfers in	150,761
Operating transfers out	(196,396)
Total operating transfers	<u>(45,635)</u>
Change in net position	<u>2,870,174</u>
Total Net Position - Beginning	5,325,896
Total Net Position - Ending	<u>8,196,070</u>

Exhibit 5

Aerial Photo of Landfill Phase IV



The Compactor

THE NEW CAT 816



THE NEW CAT 816 LANDFILL COMPACTOR OFFERS YOU SEVERAL ADVANTAGES: A HIGH-CAPACITY FRONT BLADE, A POWERFUL REAR DRIVE, AND A WIDE RANGE OF APPLICATIONS. THE CAT 816 IS A FULL-COMPACTOR DESIGN, WHICH MEANS IT CAN HANDLE HEAVY LOADS AND OPERATE IN TIGHT SPACES. WITH ITS 100-HORSEPOWER ENGINE, THE CAT 816 CAN COMPACT A WIDE RANGE OF MATERIALS, INCLUDING SOIL, GRAVEL, AND ASPHALT. THE CAT 816 IS ALSO AVAILABLE WITH A WIDE RANGE OF OPTIONS, INCLUDING A REAR DRIVE, A FRONT BLADE, AND A WIDE RANGE OF TIRE OPTIONS. THE CAT 816 IS A VERSATILE MACHINE THAT CAN BE USED IN A WIDE RANGE OF APPLICATIONS, INCLUDING LANDFILL, CONSTRUCTION, AND MAINTENANCE.

2 816 LANDFILL COMPACTOR

T