

**INFRASTRUCTURE STATE REVOLVING FUND PROGRAM
STAFF REPORT**

Summary terms

Applicant:	City of San Diego (City)
Project name:	Organics Processing Facility (Project)
Applicant eligibility category:	Sponsor (Local Government)
Project eligibility category:	Public Development (11. Solid Waste Collection and Disposal)
Project location:	5180 Convoy Street, San Diego, CA 92111
Financing amount:	\$40,000,000
Financing term:	20 Years
Interest rate:	All-in interest rate of 4.04% (inclusive of 0.15% servicing fee), based on August 03, 2023, MMD Revenue scale (no subsidies).
Fees:	1% origination fee (\$400,000) to be paid by the borrower
Source of repayment:	Enterprise Fund – Environmental Services (Fund)
Security:	Pledge of net system revenues and all legally available amounts in the Fund
Applicant credit rating:	The Fund is unrated. The City has Issuer/ General Obligation Ratings of Aa2/AA)
ISRF funding source(s):	Equity funds - Bond Anticipation Loan to be reimbursed by the next ISRF Bond proceeds
Applicant ISRF financing exposure:	One existing ISRF loan with \$21,567,754 outstanding, with the City as joint borrower with the San Diego Convention Center Corporation. Total exposure including requested ISRF loan would be 11.10% of total portfolio, below global single borrower limit of 20%.

Executive Summary

Borrower Description

The City of San Diego was incorporated in 1850. The City operates under the laws of the State and its own charter. It has a population of roughly 1.375 million, making it the second most populated city in California. The City's four economic bases are (1) manufacturing and innovation; (2) international trade and logistics; (3) military installations; and (4) tourism. In June 2022, the City's unemployment rate was 3.4% compared to the State rate of 4.2%. In 2020 its Median Household Income (MHI) was 128% of the US MHI.

Project Description and Project Benefits

The City is requesting an ISRF loan of up to \$40 million to help finance the Organics Processing Facility (the Project) at the Miramar Landfill. The \$80.5 million Project shall consist of a ± 25,000 square-foot Intake Facility, including processing equipment, a conveyor system, stormwater and wastewater controls, and ancillary systems. The Project will bring the City into compliance with SB 1383, which is intended to reduce statewide landfill disposal of organic waste and will increase the City's capacity to process compostable organic waste via Covered Aerated Static Pile (CASP)

system from approximately 40,000 tons per year (tpy) to over 251,000 tpy. The Project is also expected to create 156 construction jobs and 45 new permanent jobs.

The Miramar landfill has been leased to the City by the US Navy since the 1950's, and the Navy has provided an endorsement letter to IBank to show their approval of the use of the leased property under the existing lease and terms of the Project. The endorsement letter covers the following: (1) Proposed Miramar Organics Processing Facility (OPF) Request; (2) Proposes Miramar OPF Scope of Work; (3) Proposed Miramar OPF Site Map; (4) Request for Environmental Impact Review; (5) Mission Assurance review; Marine Corps Installations West Concept Validation Worksheet. The City has a very close relationship with the Navy and does not foresee any major challenges regarding the Project. (Details in the narrative section below)

Sources and Uses Chart:

Project Uses	Project Sources		
	IBank	City of San Diego	Total
Organic Processing Facility at Miramar Landfill	\$40,000,000	\$37,233,000	\$77,233,000
Contingency		\$2,900,000	\$2,900,000
Origination Fee		\$400,000	\$400,000
Total	\$40,000,000	\$40,533,000	\$80,533,000

The total project cost is \$80.5 million as seen in the chart above. The City will pay the \$40.5 million from the reserves on its balance sheet. As of FYE 2022 the City had over \$627 million in their General Fund cash reserves and total unassigned funds of \$159 million. The City has allocated funds for this project that is included in the City's Capital Improvement Plan (CIP). Additionally, the city has applied for two grants totaling roughly \$14 million, and if approved the City will reimburse themselves with the grant funds. Contingency included in the project costs is 7.25% or \$2.9M. The City has already set this money aside for contingency.

Financial and Repayment Analysis

The proposed ISRF financing will be secured by a pledge of revenues from the City's Environmental Services Fund. While the Fund's performance has been uneven in recent years, including large deficits in Fiscal Years 2021 and 2022, the Fund still maintains a strong financial position, with over \$34 million of cash on hand and a Current Ratio greater than 5.0X as of FY22. Despite the postclosure liabilities and pension adjustments, the Fund has shown a good ability to keep its core operating expenses under control.

In anticipation of the subject Project, on March 17, 2023, the City approved Resolution number R-314651 to increase the Funds rates to cover the Project's debt service. The first increase of \$16 (per ton), took effect on July 1, 2023, and another \$14 increase will take effect next July. Based on these increases, the Fund is projected to generate consistent operating surpluses over the next five years (see projected cashflow). These are the only increases outside of the CPI index increase for the next few years. The City has also expressed its strong support for the project.

The City has had minimal rate increases over the last ten years. Before July 1, 2023, the last material rate adjustment was a \$3 tipping fee increase in 2015. Please see table below.

Fiscal Year	Disposal Fee/ton	Fee Increase	Comment	Authority
2013	\$30			
2014	\$30			
2015	\$33	\$3	Fee Increase	R-307833
2016	\$34	\$1	CPI applied	R-307833
2017	\$34			
2018	\$35	\$1	CPI applied	
2019	\$36	\$1	CPI applied	
2020	\$37	\$1	CPI applied	
2021	\$38	\$1	CPI applied	
2022	\$39	\$1	CPI applied	
2023	\$42	\$3	CPI applied	
2024	\$58	\$16	Latest Fee Increase of \$16	R-314651
2025	\$72	\$14	\$14 (plus CPI est. \$2 additional)	R-314651

Projected Cashflow

The chart below shows projected cash flow based on projections provided by the City. (Please see the Repayment Analysis/projections section narrative and Exhibit #3 for details).

PROJECTED CASH FLOW							
For Fiscal Year Ending (FYE) June 30	2022	2023	2024	2025	2026	2027	
Operating Income (Loss)	(\$9,893,000)	(\$6,915,025)	\$877,419	\$12,367,981	\$10,809,499	\$11,176,740	
Transaction Specific Adjustments							
+ Depreciation	6,400,000	3,124,800	3,124,800	3,124,800	3,124,800	3,124,800	
- Transfers Out	(1,709,000)	(860,000)	(969,000)	(988,000)	(1,008,000)	(1,028,000)	
Total of all Adjustments	4,691,000	2,264,800	2,155,800	2,136,800	2,116,800	2,096,800	
Cash Available for Debt Service	(\$5,202,000)	(\$4,650,225)	\$3,033,219	\$14,504,781	\$12,926,299	\$13,273,540	
Debt Service Calculation							
Total Existing MADS Debt Service	0	0	0	0	0	0	
Proposed IBank MADS ⁽¹⁾	2,948,247	2,948,247	2,948,247	2,948,247	2,948,247	2,948,247	
Total Obligations MADS	\$2,948,247	\$2,948,247	\$2,948,247	\$2,948,247	\$2,948,247	\$2,948,247	
Debt Service Coverage Ratio	-1.76	-1.58	1.03	4.92	4.38	4.50	
<small>(1) Calculated at \$40,000,000 with an all-in rate of 4.04%, 20 year term.</small>							

The projections show adequate DSCR in the projected years to cover debt service for the loan. The fiscal year 2024 Debt Service Coverage Ratio (DSCR) is 1.03X when compared to the higher DSCR in projected years 2025 through 2027.

However, ISRF loans require an interest only payment in February, and an interest and principal payment in August of each fiscal year. The borrower is only expected to pay an interest payment in FY 2024 (in February of 2024). This loan is scheduled to close in December 2023 and therefore borrower will not be making an August payment in FY 2024, and with only the interest payment considered the DSCR in FY 2024 is 4.68X

Rate increases have been approved and implemented for FY 2024 and 2025. The operating surpluses in FYs 2026 and 2027 are slightly lower than FY 2025 since there are no further rate increases in those years, though tonnage processed continues to grow. Operating expenses are also projected to increase in each of those years, however the fund would have more than adequate funds to meet debt service requirements. (Please see projections section for further details)

The City's Environment Committee and the City Council have both approved the rates. Their Budget for 2023-2024 is approved and the City plans to continue to approve the budget each year as this is a critical project and required for SB 1383 compliance.

Risks and mitigants

Risk:

In previous years, the Fund's cashflows would have been inadequate to meet the proposed debt service requirements.

Mitigants:

- The City has already approved and begun to implement rate increases needed to help the Fund meet debt service coverage requirements for the requested ISRF financing.

Risk:

The City is not prohibited from incurring additional debt under the Fund.

Mitigants:

- The City will be prohibited from issuing future debt senior to IBank financing.
- 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 parity debt and the Financing, and the proposed parity debt, payable from the Fund.
- The Borrower will be required to maintain rates and charges in an amount sufficient to ensure in each fiscal year that Net Revenues produce a minimum of 1.20 times aggregate annual debt service coverage ratio for the Financing and all parity debt.

Compliance with IBank Criteria, Priorities, and Guidelines

The proposed financing is in accordance with IBank Criteria, Priorities, and Guidelines (ISRF Criteria) by the following definition: The applicant is a city of the State of California (State), and the Project is eligible under the section titled "Projects" of the ISRF Criteria under the Public Development Facilities category.

Criteria Exception:

N/A

Staff Recommendation: Staff recommends the approval of Resolution No. 23-12 authorizing ISRF Program Financing in an amount not to exceed \$40,000,000 to the City of San Diego for the Organic Processing Facility (Project).

Support for Staff Recommendations:

1. The City has successfully increased rates to cover expenses and service its debt.

<p>2. The Project is in line with the State’s Scoping Plan of reducing short lived pollutants in landfills.</p> <p>3. The Project is in line with the City’s Climate Action Plan of becoming a sustainable city.</p>	
IBank Staff:	Steven Wright and Lina Moeller
Date of Staff Report:	August 17, 2023
Date of IBank Board Meeting:	August 23, 2023
Resolution Number:	23-12

Borrower background

Borrower description

The City of San Diego was incorporated in 1850 and covers approximately 325 square miles of land area along with an estimated additional 47 square miles of water area. The City operates under the laws of the State and its own charter. The City has a population of roughly 1.375 million as of January 1, 2022, making it the second most populated city in California (Los Angeles being the first).

Local economy

The City’s four economic bases are (1) manufacturing and innovation; (2) international trade and logistics; (3) military installations; and (4) tourism. The City’s higher education and major scientific research institutions provide a foundation to create new manufacturing products. Top exports from the City are computer and electronic parts, chemicals, machinery, and transportation equipment.

Tourism was impacted greatly by Covid 19 pandemic, and the City’s Convention Center served as a homeless shelter and intake center for minors during that time. The Convention Center resumed its normal activities on August 1, 2021. The City has seen improvements in 2021 and 2022 but does not expect tourism to hit 2019 levels for the next couple of years.

The City’s Median Family Income was a strong 128% of the U.S. Median Family Income was above 116% four out of five historical years figure in 2020 (the most recent year available). In June 2022, the City’s unemployment rate as 3.4% compared to the State rate of 4.2%.

Top Ten Employers of the City shown below show largely public employers. The top employer is the Naval Base that employs 5.9% of the city’s labor force.

Rank	Employer	Number of Employees	Percentage of Total Labor Force
1	Naval Base San Diego	41,321	5.9%
2	University of California, San Diego	37,064	5.3%
3	Sharp Health Care	18,839	2.4%
4	County of San Diego	16,744	2.7%
5	Scripps Health	13,787	2.0%
6	San Diego Unified School District	13,559	1.9%
7	Qualcomm Inc	11,546	1.6%
8	City of San Diego	11,466	1.6%
9	Kaiser Permanente	9,632	1.4%
10	Northrop Grumman Corporation	6,075	0.9%
	Total	180,033	100.0%
	City of San Diego Labor Force	701,200	
	City of San Diego Unemployment Rate	3.40%	

Source: 2022 ACFR

The City's credit profile is strong. On December 10, 2021, Moody's affirmed its Aa2 issuer rating (in place since 2014), which is slightly above the median rating of Aa3 for cities nationwide. Moody's states that the City has an exceptionally strong economy and tax base and determined that the City has a strong residential wealth and income profile along with a satisfactory financial position.

IBank Exposure

On December 6, 2016, IBank entered into a \$25.5 million financing agreement with the City and the San Diego Convention Center corporation (SDCCC). The City has \$21,567,754 outstanding, as a joint borrower with SDCCC setup as a lease-leaseback structure. The lease payments are made by SDCCC. The proceeds of the loan were for the removal and replacement of the entire 113,600 square foot pavilion roof structure; removal and replacement of the five cooling towers and related devices necessary to deliver a complete system; replacement and upgrade the fire system and upgrade all escalators. That financing as of August 8, 2023, is being paid as agreed. Total City exposure including the new ISRF loan request would be 11.10% of the outstanding ISRF Portfolio. Per the ISRF Criteria, total financings to a single borrower, regardless of repayment source, may not exceed 20% of the Portfolio.

Project background

Project description

The \$80.5 million Project consists of a ± 25,000 square-foot Intake Facility with of reinforced concrete floor, roof, and four walls opening to about 75% through hanger style doors. The Project will also include associated processing equipment, a conveyor system, stormwater and wastewater controls, and ancillary systems. The City is requesting an ISRF loan of up to \$40 million to help finance the Project at the Miramar Landfill. As mentioned earlier, the City will fund the balance of the \$80.5 million. The City has applied for \$14 million in grant funds. This includes two grant applications recently submitted as follows:

- 1) \$9.6M from CalRecycle to offset cost for the intake facility.

2) \$4.0M grant towards purchasing equipment of 20 Covered Aerated Static Pile (CASP) bunkers.

If grant funds are received, the City will reimburse itself with that amount. The grant funds are not mission critical but would allow the City to keep more of their reserves.

The Project is needed due to California Senate Bill number 1383 (SB 1383), which will reduce statewide landfill disposal of organic waste. The target is to reduce organic waste disposal by 75% by 2025. (Over the last year IBank has already approved two ISRF Financings related to SB 1383, including \$35 million to Sacramento for its transfer station, and \$6 million to the City of Watsonville for its Landfill Phase IV Construction Project.)

Project benefits

- The Project will enable the City to be compliant with SB 1383, AB 939, 341, 1826.
- Help improve the City's Recycling Ordinance and move a step closer to the City's Zero Waste Plan.
- Project is in line with the State's goal of reducing Green House Gas Emissions.
- Project is also expected to create 156 construction jobs and 45 new permanent jobs.

System Description

Environmental Service Department (ESD), a department of the City, ensures the City residents are provided with a clean and safe environment. ESD is also responsible for the collection and disposal of refuse, recyclables, household hazardous waste and green waste. ESD provides weekly residential refuse and organics collection, biweekly collection of recyclables, and collection and maintenance of street litter containers in business districts.

Top Ten System Transactions:

The following table displays the Fund's Top 10 System Transactions. Per the ISRF Criteria, revenues derived from the top ten ratepayers are not exceed 50% of total revenues, and no single ratepayer to generate 15% or greater of the System's annual revenues.

Although the City Collection Services transacts 10% of the System, it generates 28% of total percentage of System Revenues. However, this is not seen as high concentration risk (or Criteria exception) as the City Collection Services is a public entity operating under the City of San Diego and constitutes services provided to thousands of residential Users (vs. one User) of the City of San Diego. The revenues derived are steady, consistent, and low risk for the Fund.

TOP 10 SYSTEM TRANSACTIONS AS OF JUNE 23, 2023				
	User	% System Use	% System Revenues	Customer Class (Residential/ Commercial/ Industrial/Other)
1	City Collections Services	10.0%	28.0%	Residential
2	Waste Management of San Diego	4.0%	7.0%	Commercial
3	EDCO	4.0%	7.0%	Commercial
4	City of San Diego Departments	3.0%	7.0%	Other
5	Allied Waste	3.0%	4.0%	Commercial
6	Navy Contract Haulers	2.0%	0.0%	Other
7	Tayman Industries	1.0%	2.0%	Commercial
8	Ware Disposal	1.0%	1.0%	Commercial
9	Diamond Solid	1.0%	1.0%	Commercial
10	Debris Box	0.0%	1.0%	Commercial
	Total	29.0%	58.0%	

Source: Financing Application Addendum

Ground Lease

The Project is to be built on land leased to the City by the US Navy. The lease has been in place since the 1950's and is set to expire in August of 2045, two years after the end of the subject loan term. The City reports that it has a very close symbiotic relationship with the US Navy. The Navy employs over 41 thousand jobs in the city. The Navy also avails itself of free disposal services at the landfill and this is a financial benefit. The City has followed all required regulations with reference to the landfill. The City has provided a consent form (Navy Landfill Endorsement) from the US Navy that indicates all parts of the Project are in good standing with the US Navy and consistent with the terms of the lease agreement.

Capital Improvement Plan (CIP)

The City has planned approximately \$84.1million in CIP expenditures between FY 2023 and FY 2028 for landfill facility improvements. The most significant CIP project cost includes the Project described above. The City has no plans to expand the Project over the next five years.

System Users and Rate Structure

NUMBER OF TRANSACTIONS BY CATEGORY					
For Fiscal Year Ending (FYE) June 30	2019	2020	2021	2022	2023 Estimate
Residential	78,266	73,903	61,278	59,388	67,319
Commercial	218,056	182,053	211,154	243,532	227,908
Other	38,516	33,503	35,093	35,901	32,452
Total	334,838	289,459	307,525	338,821	327,679
% change	N/A	-15.7%	5.9%	9.2%	-3.4%

Source: Financing Application Addendum

For this Project, the table above represents the number of transactions and not users. Even though the number transactions went down in 2023. The overall tonnage went up from FY 2022 from 479,216 to 479,818 in 2023. The table above also shows the effects the Covid 19 pandemic had on the residential users over the past three years. The City believes the residential users will improve in 2023. Commercial users fell off in 2020 due to the pandemic, but quickly bounced back in 2021 and continued to improve in 2022. The Other category includes Navy loads and City of San Diego Departments such as Parks & Rec, Public Utilities, Stormwater, and other small departments. This category also declined in 2020 in response to the pandemic but bounced back in 2021 and remained steady in 2022.

Current System Usage and Revenue Table

CURRENT SYSTEM USAGE & REVENUE				
	Annual Usage (CCF)⁽¹⁾	% Annual Usage	Gross Annual Revenue	% Gross Annual Revenue
Residential	59,388	17.5%	\$10,149,385	31.2%
Commercial	243,532	71.9%	\$19,742,880	60.6%
Other	35,901	10.6%	\$2,675,125	8.2%
Total	338,821	100.0%	\$32,567,390	100.0%
Source: Financing Application				
⁽¹⁾ Hundred cubic feet				

Commercial users represent about 60% of the Total Gross Revenue in the City. Followed by Residential and Others at around 31% and 8% respectively. This is a healthy diverse mix.

Credit Analysis

Financial statements for the Environmental Services Fund, derived from the City’s Annual Comprehensive Financial Reports for FY 2018 through FY 2022, appear in Exhibits 1 and 2. These statements are based on accrual accounting. Fund revenue and expense projections for FY 2023 through 2027 are presented in Exhibit 3. Key Economic Indicators Table (Exhibit 4) represents FY 2018 through 2022. The Fund is the main business-type activity fund of the Environmental Services Department, meaning that all or a significant portion of the Fund’s costs are covered through fees and charges.

Balance sheet (Exhibit 1)

The Fund’s Cash and Investment account has been over \$34 million over the last five fiscal years analyzed, with FY 2022 being the lowest at \$34.1 million. The decline in cash came at the end of FY 2017 when CalRecycle approved a pledge account from a cash account for closure and postclosure expenses. In doing this, City repurposed \$18 million to be used towards infrastructure and capital improvements. Thus, the decline in cash over time.

The Fund has maintained a strong current ratio (current assets divided by current liabilities) of 5.0 or better, which indicates they are more than capable of covering their short-term liabilities (See Exhibit 4). Non-depreciable assets grew over 50% from FY 2018 to 2019, but then declined over the next three years due to the Covid 19 pandemic as construction projects declined dramatically.

The Fund’s leverage ratio (total liabilities divided by net position) has averaged 3.18X for FY 2018 through FY 2021. In FY 2022 the leverage ratio jumped to almost 7X due to several circumstances:

- Cash reserves reduced as they were used to finance improvements to the Miramar Landfill during Covid 19.
- Cash was also used to assist with the Fund’s operations.
- A decline in investments due to high federal rates.
- Increase in other expense related to landfill closure and post closure costs.

Net Position fell from \$30 million to \$16 million in the years reviewed, driven by a large jump in depreciation, ongoing 'other' expenses perhaps related to landfill closure, investment losses, and a loss on sale of capital assets.

Accounts Receivable Aging

	Current	Over 30	Over 60	Over 90	Over 120	Total
Annual Receipts	\$989,284	\$12,493	\$11,832	\$4,712	\$22,874	\$1,041,195.00
Percent	95.0%	1.2%	1.1%	0.5%	2.2%	100.0%

The table above shows the Fund’s Accounts Receivable as of May 31, 2023. Two percent of the Fund’s Accounts Receivable are over 120 days and one percent each of Accounts Receivables that are 30, 60, and 90 days past due. There are two policies for delinquent accounts: (1) For non-government entities, invoices get automatically sent to collections after 30 days past due; (2) For government entities, collections get notified after 90 days past due. The City’s Collection Office will contact the client to arrange payment options.

Income Statement (Exhibit 2)

The Operating Margin for the Fund has been negative four out of five years except for FY 2020, when the Fund received the \$4.5 million credit from CalRecycle. The landfill was originally scheduled to close in 2025, however, based on recent changes in recycling policies and compaction methods, the landfill is expected to remain open through 2031. The landfill closing has no effect on the Organic Processing Facility. The Fund has been covering operating deficits with a combination of non-operating revenues and reserves. That said, a good job was done of maintaining the Fund’s core operating expenses prior to Depreciation and Other Expenses. From FY 2018 to FY 2021, the Fund has kept total operating expenses between \$38.5 million and \$41.2 million. FY 2022, total operating expenses jumped to \$47 million. Total Operating expenses were impacted due to an increase in non-cash Depreciation, and regulatory treatment of Closure and post closure expenses that are beyond their control.

The Fund has maintained a steady revenue base, with a five-year average around \$35 million. 2021 was the lowest at \$32.2 million, reflecting a full year of pandemic operations. However revenues rebounded in FY22 to over \$37 million. It is worth reiterating that the Fund had no rate increases (except for CPI adjustments) during this period.

Repayment Analysis/Projections (Exhibit 3)

The Fund historically has operated with deficits that have been covered by reserves. So historically it would not be able to support a \$40 million loan.

However, in anticipation of the subject Project, on March 13, 2023, the San Diego City Council unanimously approved rate increases for the Fund (via resolution number R-314651) to ensure the Project’s ability to meet debt service requirements. Prop 218 process did not apply in determining the rate increase, as rather than impacting all constituents the rate increases only impact those who choose

to use the landfill services and take loads to the landfill. During the public outreach and comment period, ESD did not encounter any opposition to the fee increases (not even from franchise haulers, who account for about 30% of their revenue).

The following chart shows the approved rate increases:

HISTORICAL RATE INCREASES OF THE PAST FIVE YEARS		
Date Adopted	Date Effective	Percent Increase
11/19/2012	7/1/2014	10.00%
11/19/2012	7/1/2015	3.00%
3/17/2023	7/1/2023	38.00%
3/17/2023	7/1/2024	24.00%
Source: Financing Application Addendum		

Another factor to consider is that the Miramar landfill is centrally located for the residents and businesses of San Diego. Of the two other competing landfills, the Sycamore landfill would require a one-hour round-trip from the City, and the Otay landfill would require a two-hour round-trip. Also, the fees at these locations are much higher than at Miramar which charges an all-in rate of \$72 per ton. The other two charge over \$100. Even with the planned rate increases, Miramar is the less expensive option (see table below).

Landfills	Price per ton
Miramar	\$72
Sycamore	\$101
Otay	\$101

The City provided projections for the Fund through FY 2027. Please see Exhibit # 3.

Despite the increase in total revenue, the City’s revenue assumptions are conservative. The City used a three-year tonnage average in their revenue calculations, starting with two pandemic years i.e. 2020 and 2021 (when most things were shut down), and fiscal year 2022. The Operating Income in 2026 and 2027 decreases from 2025 because there are no more rate increases in those years. Also, expense assumptions are being projected higher in each of those years as detailed below.

Expense Assumptions

Expense Assumptions are based on the third quarter FY 2023 expense figures:

- Salaries and Employee Benefits – assumes addition of 15, 8 and 11 jobs in FY 2024, 2025 and 2026 respectively. The additional positions include engineers, equipment operators and other landfill service jobs needed to operate of the new facility. Salaries and Benefits increase by 7.43% in FY 2024, 3.38% in FY 2025, 3.60% in FY 2026, and 2.98% in FY 2027. The City’s Department of Finance provided the salaries and employee benefits percentage increases.
- Supplies, Contracts, and Information Technology assume a 4.08% increase in FY 2024 and a 3.25% increase in for FY 2025 through 2027. Most contractual services are related to heavy equipment and landfill maintenance and engineering.

- Depreciation is based on a five-year average because it varies from year to year and the City wanted to remain on the conservative end of the spectrum. Depreciation is a non-cash expense which is added back in the projections.
- Other Expense (Closure and Postclosure) is based on a five-year average because expense varies from year to year.

Expense assumptions may seem conservative; however, this is due to the City reallocating \$6 million in expenses to the General Fund. The \$6 million was expense related to programs such as street litter collection and waste removal on public rights-of-ways, and vehicle expenses related to these programs. The City thought these programs would be better suited under the General Fund. The reallocations moved approximately 42 positions from the Fund to the General Fund and the Recycling Fund.

Adjustments to Operating Income are as follows:

- Depreciation is added back.
- Transfer out was included in the projection as it relates to Assembly Bill 939. This fee is charged to all loads coming into the landfill even to the fee exempted loads. This fee goes into the Recycling Fund to be used for recycling and waste diversion programs, Earth Day, events, and public outreach.

Taking all above assumptions into account, Operating Income turns positive in FY2024 and then strengthens considerably in FY2025, as the full impact of the rate increases is realized. After being negative in FY 2023, the DSCR is 1.03x in FY2024 (the first year of the loan) and then considerably higher thereafter. The DSCR in FY2024 is 4.68X when only the interest payment in February of 2024 is considered.

(Note: In FY 2024 i.e. between July 1st 2023 and June 30th 2024, only an interest payment would be due for this loan in February of 2024. This is because ISRF loans have two payments a year, i.e. one interest only payment in February and one principal and interest payment in August. This loan will close after August of 2023. The first principal and interest payment will be in August of 2024 which is in FY 2025).

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

Staff Recommendation

Staff recommends the approval of Resolution No. 23-12 authorizing ISRF Program Financing in an amount not to exceed \$40,000,000 to the City of San Diego for the Project:

1. **Applicant/Borrower:** City of San Diego (Borrower)
2. **Project Name:** Organics Processing Facility (Project)
3. **Amount of ISRF Program financing:** Up to \$40,000,000
4. **Maturity:** Not to exceed 20 years. Financing may not be prepaid during the first 10 years.
5. **Repayment/Security:** The ISRF Financing will be secured by a senior lien on the City's Environmental Service Fund's Net Revenues, and all legally available amounts in the Fund.
6. **Interest Rate:** All-in 4.04% (including a 0.15% annual servicing fee).
7. **Fees:** Borrower to pay the origination fee of 1.00% (\$400,000) of the Financing amount upon close of Financing, and the annual servicing fee.
8. **Not an Unconditional Commitment:** If IBank Board (Board) approves the resolution authorizing the Financing request, the resolution shall not be construed as an unconditional commitment to finance the

Project, but rather 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 180 days from the date of its adoption. Thus, the Borrower and IBank must execute a financing agreement no later than 180 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. The Fund has no debt secured by senior lien on Net Revenues, and the Borrower will be prohibited from issuing future debt senior to the Financing.

b. The Borrower will be required to maintain rates and charges in an amount sufficient to ensure in each fiscal year that Net Revenues produce a minimum 1.20 times aggregate annual debt service coverage ratio for the Financing and all parity debt, and a minimum 1.00 time annual debt service coverage ratio when including subordinate debt.

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 parity debt and the Financing, and the proposed parity debt, payable from the Fund.

d. Subordinate debt will be allowed if Net Revenues are at least 1.00 time the sum of the MADS on all outstanding debt payable from the Fund.

e. The Borrower 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 debt service coverage ratios fall below required levels.

f. Upon implementing rates and charges to which Proposition 218 applies, the Borrower will 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 will covenant to notify IBank immediately upon the filing of any legal challenge to its rates or charges.

g. The Borrower to comply with the requirements of the ISRF Program Criteria and all applicable laws, regulations, and permitting requirements associated with public works projects.

h. The Borrower shall meet standard insurance requirements with respect to the enterprise system, general liability insurance, worker's compensation, and builder's risk insurance.

i. The Borrower to provide to IBank annually, within 180 days of the end of each of the Borrower's fiscal years, 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 reasonably request from time to time.

j. Such other covenants and conditions that IBank or its counsel may reasonably require.

Exhibits

Exhibit 1 – Balance Sheet

CITY OF SAN DIEGO ENVIRONMENTAL SERVICES ENTERPRISE FUND NONMAJOR BUSINESS TYPE FUND ENVIRONMENTAL SERVICES											
For Fiscal Year Ending (FYE) June 30		2018		2019		2020		2021		2022	
Source:	ACFR	%	ACFR	%	ACFR	%	ACFR	%	ACFR	%	
ASSETS AND DEFERRED OUTFLOW OF RESOURCES											
Current Assets											
Cash and Investment	\$60,655,000	45.7%	\$51,197,000	38.3%	\$45,097,000	31.7%	\$38,834,000	28.8%	\$34,131,000	27.3%	
Accounts-Net of Allowance for Uncollectibles	1,076,000	0.8%	1,119,000	0.8%	1,362,000	1.0%	1,191,000	0.9%	1,126,000	0.9%	
Accrued Interest	438,000	0.3%	280,000	0.2%	216,000	0.2%	117,000	0.1%	81,000	0.1%	
Grants			2,397,000	1.8%	411,000	0.3%	720,000	0.5%	969,000	0.8%	
Total Current Assets	\$62,169,000	46.9%	\$54,993,000	41.1%	\$47,086,000	33.1%	\$40,862,000	30.3%	\$36,307,000	29.0%	
Noncurrent Assets											
Restricted Assets:											
Restricted Cash and Investments	32,274,000	24.3%	33,334,000	24.9%	34,451,000	24.2%	34,628,000	25.6%	34,153,000	27.3%	
Capital Asests- Non-Depreciable	13,107,000	9.9%	28,085,000	21.0%	26,929,000	18.9%	14,637,000	10.8%	13,343,000	10.7%	
Capital Asests- Depreciable	16,311,000	12.3%	17,385,000	13.0%	33,672,000	23.7%	44,941,000	33.3%	41,441,000	33.1%	
Total Other Non Current Assets	61,692,000	46.5%	78,804,000	58.9%	95,052,000	66.9%	94,206,000	69.7%	88,937,000	71.0%	
Subtotal Assets	123,861,000	93.4%	133,797,000	100.0%	142,138,000	100.0%	135,068,000	100.0%	125,244,000	100.0%	
DEFERRED OUTFLOWS OF RESOURCES											
Deferred Outflows Related to Other Postemployment Benefits	388,000	0.3%	446,000		424,000		401,000		438,000		
Deferred Outflows Related to Pensions	8,354,000	6.3%	6,794,000		5,638,000		8,971,000		6,119,000		
Total Deferred Outflow of Resources	\$8,742,000	6.6%	\$7,240,000	5.4%	\$6,062,000	4.3%	\$9,372,000	6.9%	\$6,557,000	5.2%	
Total of All Assets	\$132,603,000	100.0%	\$141,037,000	100.0%	\$148,200,000	100.0%	\$144,440,000	100.0%	\$131,801,000	100.0%	
Liabilities											
Current Liabilities											
Accounts Payable	1,747,000	1.4%	6,096,000	4.6%	2,617,000	1.8%	2,516,000	1.9%	2,417,000	1.9%	
Accrued Wages and Benefits	435,000	0.4%	435,000	0.3%	534,000	0.4%	552,000	0.4%	648,000	0.5%	
Long-Term Liabilities Due Within One Year	645,000	0.5%	716,000	0.5%	2,858,000	2.0%	2,727,000	2.0%	4,026,000	3.2%	
Interest Accured on Long Term Debt									3,000	0.0%	
Total Current Liabilities	\$2,827,000	2.3%	\$7,247,000	5.4%	\$6,009,000	4.2%	\$5,795,000	4.3%	\$7,094,000	5.7%	
Noncurrent Liabilities											
Compensated Absences	404,000	0.3%	341,000	0.3%	446,000	0.3%	448,000	0.3%	451,000	0.4%	
Liability Claims	1,741,000	1.4%	1,846,000	1.4%	1,323,000	0.9%	1,548,000	1.1%	2,530,000	2.0%	
Capital Lease Obligations					8,527,000	6.0%	6,455,000	4.8%	5,333,000	4.3%	
Estimated Landfill Closure and Postclosure Care	53,003,000	42.8%	54,658,000	40.9%	50,034,000	35.2%	51,656,000	38.2%	54,865,000	43.8%	
Net Other Postemployment Benefits Liability	8,748,000	7.1%	7,622,000	5.7%	7,625,000	5.4%	7,711,000	5.7%	7,245,000	5.8%	
Pension Liabilites	32,640,000	26.4%	33,596,000	25.1%	34,008,000	23.9%	40,864,000	30.3%	31,548,000	25.2%	
Total Long Term Liabilities	96,536,000	77.9%	98,063,000	69.5%	101,963,000	71.7%	108,682,000	80.5%	101,972,000	81.4%	
Total Liabilities	99,363,000	80.2%	105,310,000	78.7%	107,972,000	76.0%	114,477,000	84.8%	109,066,000	87.1%	
Deferred Inflows of Resources											
Deferred Inflows Related to Other Postemployment Benefits	6,000	0.0%	5,000	0.0%	8,000	0.0%			144,000	0.1%	
Deferred Inflows Related to Pensions	740,000	0.6%	1,357,000	1.0%	1,318,000	0.9%			6,552,000	5.2%	
Total Deferred Inflows of Resources	\$746,000	0.6%	\$1,362,000	1.0%	\$1,326,000	0.9%	\$0		\$6,696,000	5.3%	
Net Position:											
Net Investment in Capital Assets	29,418,000	23.8%	45,470,000	34.0%	49,813,000	35.0%	50,967,000	37.7%	46,654,000	37.3%	
Restricted for Closure/Postclosure Maintenance	5,698,000	4.6%	6,487,000	4.8%	9,343,000	6.6%	4,747,000	3.5%	2,508,000	2.0%	
Unrestricted	(2,622,000)	-2.1%	(17,592,000)	-13.1%	(20,254,000)	-14.2%	(25,751,000)	-19.1%	(33,123,000)	-26.4%	
Net Position	\$32,494,000	26.2%	\$34,365,000	25.7%	\$38,902,000	27.4%	\$29,963,000	22.2%	\$16,039,000	12.8%	
Total Liabilities and Fund Balance	\$132,603,000	107.1%	\$141,037,000	105.4%	\$148,200,000	104.3%	\$144,440,000	106.9%	\$131,801,000	105.2%	

Exhibit 2 – Income Statement

CITY OF SAN DIEGO										
ENVIRONMENTAL SERVICES ENTERPRISE FUND										
NONMAJOR BUSINESS TYPE FUND ENVIRONMENTAL SERVICES										
For Fiscal Year Ending (FYE) June 30	2018		2019		2020		2021		2022	
Source:	ACFR	%	ACFR	%	ACFR	%	ACFR	%	ACFR	%
Charges for Services	\$33,964,000	97.2%	\$34,363,000	97.3%	\$34,223,000	96.8%	\$30,790,000	95.6%	\$34,858,000	93.8%
Revenue from Use of Property	161,000	0.5%	208,000	0.6%	299,000	0.8%	394,000	1.2%		
Other	835,000	2.4%	758,000	2.1%	844,000	2.4%	1,016,000	3.2%	2,310,000	6.2%
Total Operating Revenues	\$34,960,000	100.0%	\$35,329,000	100.0%	\$35,366,000	100.0%	\$32,200,000	100.0%	\$37,168,000	100.0%
Operating Expenses										
Salaries and Employee Benefits	16,339,000	46.7%	16,430,000	46.5%	15,845,000	44.8%	16,744,000	52.0%	15,214,000	40.9%
Materials and Supplies	1,617,000	4.6%	1,226,000	3.5%	1,163,000	3.3%	1,299,000	4.0%	1,386,000	3.7%
Contractual Services	14,833,000	42.4%	15,362,000	43.5%	15,954,000	45.1%	14,901,000	46.3%	18,097,000	48.7%
Information Technology	864,000	2.5%	554,000	1.6%	621,000	1.8%	741,000	2.3%	922,000	2.5%
Energy and Utilities	1,274,000	3.6%	1,874,000	5.3%	1,202,000	3.4%	1,410,000	4.4%	2,153,000	5.8%
Depreciation	1,303,000	3.7%	1,358,000	3.8%	2,567,000	7.3%	3,996,000	12.4%	6,400,000	17.2%
Other Expenses	5,033,000	14.4%	1,791,000	5.1%	(4,503,000)	-12.7%	1,795,000	5.6%	2,889,000	7.8%
Total Operating Expenses	\$41,263,000	118.0%	\$38,595,000	109.2%	\$32,849,000	92.9%	\$40,886,000	127.0%	\$47,061,000	126.6%
Operating Income (Loss)	(\$6,303,000)	-18.0%	(\$3,266,000)	-9.2%	\$2,517,000	7.1%	(\$8,686,000)	-27.0%	(\$9,893,000)	-26.6%
Nonoperating Revenues (Expenses)										
Earnings on Investments	\$900,000	2.6%	\$2,921,000	8.3%	\$2,693,000	7.6%	\$251,000	0.8%	(1,096,000)	-2.9%
Federal Grant Assistance			\$16,000	0.0%	\$255,000	0.7%	\$406,000	1.3%	1,284,000	3.5%
Debt Service Interest Expense					(\$3,000)	0.0%	(\$64,000)	-0.2%	(57,000)	-0.2%
Other	\$133,000	0.4%	\$71,000	0.2%	\$24,000	0.1%	\$23,000	0.1%	32,000	0.1%
Loss on Sale/Retirement of Capital Assets	(\$161,000)	-0.5%					(\$12,000)	0.0%		
Leases									394,000	1.1%
Gain (Loss) on Sale/Retirement of Capital Assets									(1,757,000)	-4.7%
Other Agency Grant Assistance			\$2,381,000	6.7%						
Net Non-operating Revenues (Expenses)	\$872,000	2.5%	\$5,389,000	15.3%	\$2,969,000	8.4%	\$604,000	1.9%	(\$1,200,000)	-3.2%
Income (Loss Before Operating Transfers)	(\$5,431,000)	-15.5%	\$2,123,000	6.0%	\$5,486,000	15.5%	(\$8,082,000)	-25.1%	(\$11,093,000)	-29.8%
Capital Contributions and Transfers										
Capital Contributions	\$29,000		\$1,402,000		\$19,000		\$123,000		508,000	
Transfers from Other Funds			\$35,000		\$75,000					
Transfers from Governmental Funds	\$108,000		\$0		\$72,000		\$34,000			
Transfers to Other Funds (Per AB 939)	(\$573,000)		(\$1,672,000)		(\$1,115,000)		(\$1,014,000)		(1,709,000)	
Transfers to Governmental Funds	(\$16,000)		(\$17,000)							
Total Contributions and Transfers	(\$452,000)		(\$252,000)		(\$949,000)		(\$857,000)		(\$1,201,000)	
Extraordinary Loss									(\$1,630,000)	
Increase (decrease) in Net Position	(\$5,883,000)		\$1,871,000		\$4,537,000		(\$8,939,000)		(\$13,924,000)	
Beginning Net Assets	38,377,000		32,494,000		34,365,000		38,902,000		29,963,000	
Ending Net Assets	\$32,494,000		\$34,365,000		\$38,902,000		\$29,963,000		\$16,039,000	

Exhibit 3 – Projections

CITY OF SAN DIEGO

PROJECTED NONMAJOR BUSINESS TYPE FUND ENVIRONMENTAL SERVICES

For Fiscal Year Ending (FYE) June 30	2022		2023		2024		2025		2026		2027	
Source:	ACFR	%	Actuals	%	Projections	%	Projections	%	Projections	%	Projections	%
Charges for Services	\$34,858,000	93.8%	\$39,739,005	95.3%	51,457,000	97.4%	\$64,809,000	97.9%	\$65,203,000	97.8%	\$67,379,000	97.9%
Revenue from Use of Property	\$0	0.0%	782,884	1.9%	776,000	1.5%	801,000	1.2%	817,000	1.2%	833,000	1.2%
Other	\$2,310,000	6.2%	1,171,025	2.8%	602,000	1.1%	621,000	0.9%	633,000	0.9%	646,000	0.9%
Total Operating Revenues	\$37,168,000	100.0%	\$41,692,914	100.0%	\$52,835,000	100.0%	\$66,231,000	100.0%	\$66,653,000	100.0%	\$68,858,000	100.0%
Salaries and Employee Benefits	15,214,000	40.9%	16,462,620	39.5%	17,685,793	33.5%	18,357,853	27.7%	19,018,735	28.5%	19,440,951	28.2%
Materials and Supplies	1,386,000	3.7%	1,604,355	3.8%	1,669,813	3.2%	1,724,082	2.6%	1,780,114	2.7%	1,837,968	2.7%
Contractual Services	18,097,000	48.7%	22,026,679	52.8%	22,925,368	43.4%	23,670,442	35.7%	24,439,731	36.7%	25,234,023	36.6%
Information Technology	922,000	2.5%	1,223,432	2.9%	1,273,348	2.4%	1,314,732	2.0%	1,357,461	2.0%	1,401,578	2.0%
Energy and Utilities	2,153,000	5.8%	2,276,236	5.5%	2,617,671	5.0%	3,010,322	4.5%	3,461,870	5.2%	3,981,151	5.8%
Depreciation	6,400,000	17.2%	3,124,800	7.5%	3,124,800	5.9%	3,124,800	4.7%	3,124,800	4.7%	3,124,800	4.5%
Other Expenses	2,889,000	7.8%	1,889,817	4.5%	2,660,789	5.0%	2,660,789	4.0%	2,660,789	4.0%	2,660,789	3.9%
Total Operating Expenses	\$47,061,000	126.6%	\$48,607,939	116.6%	\$51,957,581	98.3%	\$53,863,019	81.3%	\$55,843,501	83.8%	\$57,681,260	83.8%
Operating Income (Loss)	(\$9,893,000)	-26.6%	(\$6,915,025)	-16.6%	\$877,419	1.7%	\$12,367,981	18.7%	\$10,809,499	16.2%	\$11,176,740	16.2%
Nonoperating Revenues (Expenses)												
Earnings on Investments	(1,096,000)	-2.9%	318,951	0.8%	251,000	0.5%	251,000	0.4%	251,000	0.4%	251,000	0.4%
Other	32,000	0.1%	0	0.0%	31,000	0.1%	31,000	0.0%	31,000	0.0%	31,000	0.0%
Gain (Loss) on Sale/Retirement of Capital Assets	(1,757,000)	-4.7%	0	0.0%	0	0.0%	0	0.0%	0	0.0%		
Net Non-operating Revenues (Expenses)	(1,200,000)	-3.2%	318,951	0.8%	282,000	0.5%	282,000	0.4%	282,000	0.4%	282,000	0.4%
Income (Loss Before Operating Transfers)	(11,093,000)	-29.8%	(6,596,074)	-15.8%	1,159,419	2.2%	12,649,981	19.1%	11,091,499	16.6%	11,458,740	16.6%
Transfers to Other Funds (Per AB 939)	(1,709,000)		(860,000)		(969,000)		(988,000)		(1,008,000)		(1,028,000)	
Total Contributions and Transfers	(1,201,000)		(860,000)		(969,000)		(988,000)		(500,000)		(1,028,000)	
Extraordinary Loss	(1,630,000)											
Increase (decrease) in Net Position	(\$13,924,000)		(\$7,456,074)		\$190,419		\$11,661,981		\$10,591,499		\$10,430,740	

Exhibit 4 – Key Indicators

City of San Diego					
Key Indicators	2018	2019	2020	2021	2022
<u>Economy</u>					
Median Family Income (as % of US Median)	119%	116%	128%	N/A	N/A
Unemployment rate (%)	3.60%	3.40%	13.30%	7.30%	3.40%
Full value per capita (\$)	\$ 148	\$ 156	\$ 164	\$ 175	\$ 179
<u>Enterprise Fund</u>					
<u>Liquidity</u>					
Cash Balances	\$ 60,655	\$ 51,197	\$ 45,097	\$ 38,834	\$ 34,131
Current Ratio [1]	21.99	7.59	7.84	7.05	5.12
Days Cash on Hand [2]	537	484	501	347	265
<u>Performance</u>					
Operating Revenue	\$34,960	\$35,329	\$35,366	\$32,200	\$37,168
Operating Margin [3]	-18.0%	-9.2%	7.1%	-27.0%	-26.6%
Fund Balances as % of Operating Revenue	92.9%	97.3%	110.0%	93.1%	43.2%
<u>Leverage</u>					
Fund Balances	\$32,494	\$34,365	\$38,902	\$29,963	\$16,039
Leverage Ratio [4]	3.06	3.06	2.78	3.82	6.80
Net pension liability to full value	15.6%	15.1%	14.5%	16.6%	12.8%
<i>[1] Current Assets ÷ Current Liabilities</i>					
<i>[2] (Unrestricted Cash * 365) ÷ Operating Expenses</i>					
<i>[3] Operating Income as % of Operating Revenues</i>					
<i>[4] Total Liabilities ÷ Fund Balances</i>					

Exhibit 5 – Project

