

REPORT FROM:

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: November 10, 2022

CAO File No. 0220-05291-1244

Council File No. --

Council District: All

To: The City Council
The Mayor

From: Matthew W. Szabo, City Administrative Officer



Reference: Budget and Finance Committee report discussing the Mayor's Proposed Budget for 2022-23, Item 203

Subject: **PLAN OF FINANCE AND REIMBURSEMENT RESOLUTION RELATED TO CERTAIN CAPITAL EXPENDITURES IN CONNECTION WITH THE BUREAU OF SANITATION'S SOLID WASTE OPERATIONS**

RECOMMENDATIONS

That the City Council, subject to the approval of the Mayor:

1. Authorize the purchase of the proposed capital equipment and capital improvements project list related to the City's Solid Waste and Solid Resources Collection and Disposal Program and the Multifamily Bulky Item Program (collectively, "Solid Waste Programs") (Attachment A);
2. Authorize the Board of Public Works, Office of Accounting, to advance funds for the purchase of the proposed capital equipment and capital improvements, subject to availability and review by the Board of Public Works, from the Public Works Trust Fund No. 834, Department No. 50 to the Bureau of Sanitation, and the Solid Waste Resources Revenue Fund (SWRRF) No. 508, Department No. 50; and

That the City Council:

3. Adopt the Resolution declaring the City's intention to reimburse the SWRRF and/or Public Works Trust Fund from proceeds of the anticipated issuance of Solid Waste Resources Revenue Bonds for expenditures made in connection with the Bureau of Sanitation's Solid Waste Programs incurred prior to the issuance of the Solid Waste Resources Revenue Bonds (Attachment B).

SUMMARY

During the consideration of the 2022-23 Budget, the City Council instructed the Office of the City Administrative Officer (CAO) and the Bureau of Sanitation (LASAN) to develop a plan to identify capital needs related to the Solid Waste Programs and a financing plan. The CAO and LASAN recommend financing the capital needs of the Solid Waste Programs totaling \$196.7 million through the issuance of Solid Waste Resources Revenue Bonds (SWRRB) this fiscal year.

FINDINGS

Capital Needs: A review of the Solid Waste Programs’ capital requirements indicates that 385 new and replacement vehicles and equipment are needed to ensure continuity of the collection, recycling, and disposal of solid resources throughout the City. This Office and LASAN recommend the replacement of 324 vehicles consisting of; 183 Automated Side Loaders, 47 Rear Loaders, and 94 miscellaneous vehicles and/or equipment. Replacements are necessary as these vehicles and equipment have exceeded life expectancies and pose safety and liability issues. In addition, 120 vehicles are out of compliance with the South Coast Air Quality Management District’s (AQMD) regulations. This Office and LASAN recommend the purchase of an additional 61 new vehicles and/or equipment including 35 Rear Loaders, 13 vehicles to support landfill operations, and 13 vehicles to support programs expanded in Fiscal Year 2022-23 including MyLA311 response and compliance with organics recycling (SB 1383). New and replacement vehicles will be natural gas powered or electric powered trucks as they become viable that are compliant with proposed air quality regulations in order to meet the City’s Clean Air Vehicle Goal.

This Office and LASAN also recommend capital improvements to Solvents, Automotive, Flammables, and Electronics (S.A.F.E.) Centers throughout the City and the purchase of 500,000 replacement containers. S.A.F.E. Centers are permanent collection sites for residents to drop off their household hazardous waste, electronic waste, and used oil. In total, the cost of the capital equipment and improvements is approximately \$196.7 million. All new and replacement equipment have a useful life of over 10 years. Equipment and vehicle delivery dates are expected to vary from nine months to two years. These items are summarized in the table below and are further described in Attachment A. Note that the equipment type, quantity, and price shown in Attachment A and as generally described in the Reimbursement Resolution are preliminary and subject to change as LASAN determines the best capital equipment and capital improvements for the intended services.

Summary of Proposed Project List		
Description	Quantity	Cost
Vehicles and Equipment - Replacement	324	\$ 139,177,000
Vehicles and Equipment - New	61	18,058,000
Vehicles and Equipment Total:	385	157,235,000
Automated Containers	500,000	35,000,000
S.A.F.E. Center Capital Improvements		4,500,000
Total Capital Needs:		\$ 196,735,000

Plan of Finance: The recommended plan of finance to fund the capital equipment and capital improvement needs as identified above, on a long-term basis, is to issue SWRRB generally supported by the SWRRF, pursuant to the terms of the master trust agreement under which the SWRRBs are issued. However, LASAN anticipates that it may be necessary to incur expenditures prior to the issuance of the SWRRB and the receipt of the SWRRB proceeds. The attached Resolution has been prepared to facilitate the reimbursement of the SWRRF and the Public Works Trust Fund, as applicable, from SWRRB proceeds for those expenditures incurred prior to the issuance of the SWRRB in connection with the acquisition, construction, equipping, and improvement of facilities, vehicles and related equipment, as referred to in, and otherwise meeting the requirements of, the Resolution. The reimbursement of expenditures for improvements from SWRRB proceeds will be subject to satisfactory completion of due diligence by the City Attorney and the City's bond counsel for compliance with state and federal tax law.

This Resolution does not authorize the issuance of any SWRRBs. Any future bond issuance would require additional approval from the City Council and the Mayor. The CAO anticipates releasing a separate report to the City Council in March 2023 that further details the bond issuance and would include recommended approvals of an Authorizing Resolution and other required financing documents. The anticipated bond sale would occur approximately two months after the City Council approval of the Authorizing Resolution. The failure to approve the issuance of SWRRBs in the future would require the City to pay for any purchased equipment, any commitment to purchase equipment, and other capital expenditures through other means.

Potential Financing Approaches

The City's two potential options to bond finance these projects are through the issuance of SWRRBs and Municipal Improvement Corporation of Los Angeles (MICLA) Lease Revenue Bonds. An important distinction between SWRRBs and MICLA is that the debt service costs related to SWRRBs is generally secured by the SWRRF as stated above, while debt service on MICLA bonds is secured by the City's General Fund.

The SWRRBs are used for the acquisition, construction, equipping, and improvement of facilities, vehicles and related equipment related to LASAN's solid waste operations (i.e. the Solid Waste Programs, as applicable). The issuance of SWRRBs provides cost transparency, accurately demonstrating the program's true costs. In addition, utility credits, such as the SWRRBs, are viewed more favorably in the bond market and achieve lower costs of borrowing than lease revenue bond credits, such as MICLA's lease revenue bonds. Currently, the City's SWRRBs are rated one notch higher than MICLA's lease revenue bonds by Moody's Investor Services and Fitch Ratings (Fitch). However, even if the City's MICLA Bonds and its SWRRBs were rated the same, as a utility credit, the SWRRBs would likely price at a lower true interest cost than MICLA Bonds. As such, the City would likely achieve a lower cost by issuing SWRRBs for the capital equipment and capital improvement needs identified in this report.

In addition to the potential pricing benefit, using SWRRBs also preserves MICLA's limited bonding capacity under the City's Debt Policy that could be used to finance other essential City projects and would not require the City to utilize any of its limited pool of assets as leased properties, which would be legally required to support an issuance of MICLA lease revenue bonds. In addition,

another potential benefit is that SWRRBs have more structuring flexibility than MICLA. As a matter of law, lease revenue bonds like MICLA must be repaid with annual lease payments which can be no higher than the annual fair rental value of the leased properties. In practice, the City meets this requirement by structuring MICLA debt service in equal annual payments. SWRRBs' annual debt service payments are not subject to such fair rental value requirement, and therefore, do not need to be paid in accordance with MICLA's practice of equal annual installments and as a result, can be repaid with more flexibility (e.g. annual debt service payments can be amortized to wrap around existing debt service).

Given the anticipated cost benefits and structuring flexibility, this Office recommends that the City pursue a SWRRB issuance.

SWRRF Status

The SWR fee is applied to all single family and small multi-family dwelling units (up to 4 units) within the City and is billed and collected on a per-dwelling unit basis. The number of dwellings subject to the fee has historically been very stable. Fees have been collected since 1983, with the last rate adjustment occurring in Fiscal Year 2007-08.

In 2021, the General Fund began subsidizing the SWRRF's annual budget for City services rendered on its behalf. In Fiscal Year 2021-22, SWRRF received a General Fund subsidy of \$73 million. In Fiscal Year 2022-23, a General Fund subsidy of \$61 million is anticipated to offset SWRRF operational expenses.

In their most recent rating reports, Fitch and Kroll Bond Rating Agency (KBRA) expressed credit concerns over the delayed SWRRF rate increase. In its November 2021 surveillance report, Fitch cited as a rating sensitivity the "[f]ailure of the City to raise the solid waste resources fee to the level needed to cover debt service and operational costs", and, in its June 2022 report, KBRA cited the City's "[i]nability to implement SWR fee increase by FY 2024." KBRA also stated that, "Any further delay in implementing the rate adjustment is likely to place a downward pressure on the rating."

FISCAL IMPACT STATEMENT

Approval of the Reimbursement Resolution related to SWRRBs will have no immediate impact on the General Fund. In Fiscal Year 2022-23, a General Fund subsidy of \$61 million is anticipated to offset SWRRF operational expenses. Absent of a rate increase, financial assistance will be necessary to fund SWRRF operations.

A future bond issuance would require additional approval from the City Council and Mayor. Incurring additional debt would obligate the SWRRF to increase debt service payments, which may result in an increased General Fund subsidy. An analysis of proposed debt repayments will be provided in a future report to Council. Failure to approve the issuance of SWRRBs in the future would require the City to pay for any purchased equipment, any commitment to purchase equipment, and other capital expenditures through other means. As noted above, the reimbursement of expenditures for improvements from SWRRB proceeds will be subject to satisfactory completion of due diligence by the City Attorney and the City's bond counsel for compliance with state and federal tax law.

DEBT IMPACT STATEMENT

Approval of this recommendation will have no impact to the City's General Fund-related debt service payments, as this recommendation does not authorize the issuance of any bonds. Any future bond financing related to this recommendation will require additional approval from the Council and Mayor. The annual debt service associated with such bonds would be paid directly from the Solid Waste Resources Revenue Fund.

FINANCIAL POLICIES STATEMENT

This recommendation is in compliance with the City's Financial Policies.

MWS:HTT:MFC:09230051

Attachment A – Proposed Capital Equipment and Capital Improvements Project List
Attachment B – Reimbursement Resolution

Solid Waste Issuance - Proposed Vehicles, Equipment, and Capital Improvement Projects							
DESCRIPTION	QTY	UNIT COST	TOTAL COST	Fuel Type	Delivery timeframe	Lifespan of vehicles/equipment	Division
Vehicles and Equipment - Replacement							
Automated Side Loaders (ASL)	173	\$ 500,000	\$ 86,500,000	CNG	11 - 25 months	10	SRSSD*
2 Axle Semi-Automated Side Loaders (SASL)	10	\$ 500,000	\$ 5,000,000	CNG	21 - 25 months	10	SRSSD
Front Loaders (FL)	9	\$ 500,000	\$ 4,500,000	CNG	22 - 25 months	10	SRSSD
Rear Loaders (RL)	10	\$ 500,000	\$ 5,000,000	CNG	22 - 26 months	10	SRSSD
Roll Offs (RO)	7	\$ 410,000	\$ 2,870,000	CNG	22 - 27 months	10	SRSSD
Rear Loaders (RL) (MFBI Vehicles)	25	\$ 500,000	\$ 12,500,000	CNG	22 - 25 months	10	SRSSD/MFBI**
Satellite Rear Loader (SAT)	12	\$ 250,000	\$ 3,000,000	Unleaded	16 - 18 months	10	SRSSD
Utility Trucks (DAC trucks)	6	\$ 300,000	\$ 1,800,000	Electricity	12 - 15 months	10	SRSSD
Pickup Trucks	11	\$ 59,000	\$ 649,000	Unleaded	12 - 15 months	10	SRSSD
Electric Forklifts	3	\$ 78,000	\$ 234,000	Electricity	12 months	10	SRSSD
Lightning Loaders (LL)	2	\$ 400,000	\$ 800,000	Unleaded	12 - 15 months	10	SRSSD
Bin/Dumpster Truck	1	\$ 80,000	\$ 80,000	Unleaded	12 months	10	SRSSD
CNG Tractor	8	\$ 300,000	\$ 2,400,000	CNG	12 - 21 months	10	SRPCD***
966 Loader CAT	2	\$ 650,000	\$ 1,300,000	Bio Diesel Tier 4	12 - 14 months	10	SRPCD
13 Yard Dump Truck	7	\$ 350,000	\$ 2,450,000	CNG	12 - 21 months	10	SRPCD
Roll Off Truck	1	\$ 410,000	\$ 410,000	CNG	12 months	10	SRPCD
Tilt Trailer	1	\$ 85,000	\$ 85,000	N/A	12 months	10	SRPCD
2 Ton Drop Trailer	1	\$ 25,000	\$ 25,000	N/A	12 months	10	SRPCD
4000 Gallon Water Trucks	4	\$ 500,000	\$ 2,000,000	CNG	12 - 21 months	10	SRPCD
Small Sweeper with Cab	2	\$ 85,000	\$ 170,000	Propane	17 - 18 months	10	SRPCD
Forklift 8000 lb	2	\$ 60,000	\$ 120,000	Propane	9 - 12 months	10	SRPCD
966 Loader CAT	2	\$ 650,000	\$ 1,300,000	Bio Diesel Tier 4	13 - 21 months	10	SRPCD
1 ton Crew Cab 4X4 Dump Bed	4	\$ 110,000	\$ 440,000	Unleaded	13 - 21 months	10	SRPCD
Van, 12 Passenger	4	\$ 55,000	\$ 220,000	Unleaded	12 - 14 months	10	SRPCD
Case Tractor with Gannon	1	\$ 170,000	\$ 170,000	Bio Diesel Tier 4	12 - 14 months	10	SRPCD
Street Sweeper	2	\$ 550,000	\$ 1,100,000	CNG	16 - 17 months	10	SRPCD
Tractor, 14.9L 54,000 GVWR	2	\$ 300,000	\$ 600,000	Diesel Tier 4,	12 - 14 months	10	SRPCD
938 Loader	1	\$ 400,000	\$ 400,000	Bio Diesel Tier 4	12 - 13 months	10	SRPCD
960 Cat Loader	1	\$ 450,000	\$ 450,000	Bio Diesel Tier 4	12 - 13 months	10	SRPCD
Scarab 20'	1	\$ 600,000	\$ 600,000	Bio Diesel Tier 4	17 months	10	SRPCD
1 sack Cement Mixer	1	\$ 4,000	\$ 4,000	Unleaded	18 months	10	SRPCD
John Deere Gator	1	\$ 35,000	\$ 35,000	Electric	12 months	10	SRPCD
Portable Air compressor	2	\$ 35,000	\$ 70,000	Bio Diesel Tier 4	12 months	10	SRPCD
Portable Light Plant	3	\$ 15,000	\$ 45,000	Bio Diesel Tier 4	12 months	10	SRPCD
Grinder, Moorpark	1	\$ 1,600,000	\$ 1,600,000	Bio Diesel Tier 4	21 months	10	SRPCD
Wildcat row turner	1	\$ 250,000	\$ 250,000	Bio Diesel Tier 4	13 months	10	SRPCD
Replacement Subtotal:	324		\$ 139,177,000				
Vehicles and Equipment - New							
Stake Bed Trucks	7	\$ 100,000	\$ 700,000	Unleaded	12 - 15 months	10	SRSSD
Forklift	1	\$ 78,000	\$ 78,000	Electricity	12 months	10	SRSSD
Cargo Box Vans	5	\$ 110,000	\$ 550,000	Unleaded	12 - 15 months	10	SRSSD
Satellite Rear Loaders (Ambassador Trucks)	10	\$ 250,000	\$ 2,500,000	Unleaded	12 - 15 months	10	SRSSD
Rear Loaders (RL) (MFBI Vehicles)	25	\$ 500,000	\$ 12,500,000	CNG	22 - 25 months	10	SRSSD/MFBI
Cat Mini Excavator 310	1	\$ 225,000	\$ 225,000	Bio Diesel Tier 4	24 months	10	SRPCD
Street Sweeper	1	\$ 550,000	\$ 550,000	CNG	24 months	10	SRPCD
Walking Floor Trailers	7	\$ 125,000	\$ 875,000	N/A	12 - 21 months	10	SRPCD
Arrow Message Board	4	\$ 20,000	\$ 80,000	Solar	12 months	10	SRPCD
New Subtotal:	61		\$ 18,058,000				
Capital Programs / Other							
SAFE Centers - Upgrades (Solid Resources Citywide Recycling Division)		\$ 4,500,000	\$ 4,500,000			10	Capital / Other
Automated Containers - household bins	500,000	\$ 70	\$ 35,000,000			10	Capital / Other
Capital Programs / Other Subtotal:			\$ 39,500,000				
Total Capital Needs:			\$ 196,735,000				

*Solid Resources Support Services Division (SRSSD)

**Multi Family Bulky Item (MFBI)

***Solid Resources Process Construction Division (SRPCD)

**RESOLUTION OF THE COUNCIL OF THE CITY OF LOS ANGELES, CALIFORNIA,
DECLARING ITS OFFICIAL INTENT TO REIMBURSE ITSELF FROM THE
PROCEEDS OF A FUTURE TAX-EXEMPT FINANCING FOR CERTAIN CAPITAL
EXPENDITURES MADE AND TO BE MADE IN CONNECTION WITH THE
BUREAU OF SANITATION'S SOLID WASTE OPERATIONS**

WHEREAS, the City of Los Angeles ("City") is a municipal corporation duly organized and existing pursuant to its Charter and the Constitution and laws of the State of California;

WHEREAS, the Council of the City ("Council") is the governing body of the City;

WHEREAS, the City desires to finance the acquisition, construction, equipping, and improvement of facilities, vehicles and related equipment in connection with the Bureau of Sanitation's solid waste operations ("collectively, the Projects");

WHEREAS, the City expects to finance the costs of the Projects through the issuance of long-term revenue bonds (the "Debt");

WHEREAS, the City expects to expend moneys (other than moneys derived from the issuance of bonds) on expenditures relating to the costs of the Projects prior to the issuance of the Debt, which expenditures would be properly chargeable to a capital account under general federal income tax principles;

WHEREAS, the City reasonably expects to reimburse certain of such capital expenditures with the proceeds of the Debt;

WHEREAS, the City expects that the maximum principal amount of proceeds of the Debt which will be issued to pay for the costs of the Projects (and related issuance costs) will not exceed \$200,000,000;

WHEREAS, at the time of the reimbursement, the City will evidence the reimbursement in a writing which identifies the allocation of the proceeds of the Debt to the City for the purpose of reimbursing the City for the capital expenditures made prior to the issuance of the Debt;

WHEREAS, the City expects to make the reimbursement allocation no later than eighteen (18) months after the later of (i) the date on which the earliest original expenditure is paid or (ii) the date on which the Projects are placed in service (or abandoned), but in no event later than three (3) years after the date on which the earliest original expenditure for the Projects is paid;

WHEREAS, the City will not, within one (1) year of the reimbursement allocation, use the proceeds of the Debt received in the reimbursement allocation in a manner that will result in the creation of replacement proceeds of the Debt or another issue; and

WHEREAS, this Resolution is intended to be a “declaration of official intent” in accordance with Section 1.150-2 of the Treasury Regulations.

NOW, THEREFORE, IT IS RESOLVED, DETERMINED AND ORDERED by the Council, as follows:

1. This Council finds and determines that the forgoing recitals are true and correct.

2. In accordance with Section 1.150-2 of the Treasury Regulations, the City declares its intention to issue the Debt in a principal amount not to exceed \$200,000,000, the proceeds of which will be used to pay for the costs of the Projects (and related issuance costs), including the reimbursement to the City for certain capital expenditures relating to the Projects made prior to the issuance of the Debt.

3. The expenditures to be reimbursed pursuant to this Resolution have been incurred within 60 days prior to the date of adoption of this Resolution or will be incurred after the date of adoption of this Resolution.

4. This declaration of intent does not bind the City to make any expenditure, incur any indebtedness, or proceed with the Projects.

5. This Resolution shall take effect immediately upon its adoption.