RAMSEY/WASHINGTON
RECYCLING & ENERGY
CONNECTING VALUE TO WASTE

To: Ramsey/Washington Recycling & Energy Board Facility & Finance Committee
From: Joint Leadership Team (JLT)
Re: Report on Recycling & Energy Center (R&E Center) Enhancements Financing
Date: May 15, 2020

Action Requested

In the attached resolution, the Facility & Finance Committee is requested to recommend that the Recycling & Energy Board (R&E Board):

- Accept the state bond funds in the amount approved by the legislature and authorize the Joint Leadership Team (JLT) to negotiate documents for receipt of state bond funds, with such agreements brought back for R&E Board approval as soon as possible.
- Authorize the chair of the R&E Board to execute documents necessary for the receipt of state bond funds, upon approval as to form by county attorneys.
- Authorize proceeding with the full scope of the R&E Center enhancements, including the durable compostable bag food scraps recycling system and the recyclables recovery system.
- Authorize the JLT to proceed with final engineering, architecture and construction plans; necessary permits; and construction bidding documents as soon as funds are available.
- Authorize the JLT to apply for permits necessary for the enhancements, and further authorize the Chair to execute necessary easement and permit documents upon approval as to form by county attorneys.
- Approve and recommend that the county boards approve and implement a financing structure for the R&E Center enhancements, with said financing structure to include the following:
    - Each county shall loan a proportionate share to the R&E Board sufficient to cover its share of total financing, including all financing costs, for the R&E Center enhancements, according to the percentages set forth in the joint powers agreement: Ramsey County – 73%, Washington County – 27% (the "County Enhancement Loans").
    - Ramsey County shall issue general obligation bonds on behalf of both counties (the "County Bonds") to fund the aggregate County Enhancement Loan amount for the R&E Center enhancements.
    - Ramsey County and Washington County shall enter into an agreement whereby Washington County agrees that Ramsey County will issue bonds on behalf of both counties, and that Washington County shall provide its general obligation pledge to Ramsey County for its share of the financing and pay its share of the total financing of the R&E Center Enhancements through its loan agreement with the R&E Board.
    - The R&E Board shall be obligated to and is hereby authorized to enter into one or more loan agreements pursuant to which it will agree to repay the County Enhancements Loans from facility revenues, CEC funds and other available revenues on terms and conditions that match, or are otherwise consistent with, any terms and conditions of any other loans outstanding and owed to the counties, additional covenants required by the counties and the County Bonds issued to fund R&E Board's County Enhancements Loans.
- Authorize the JLT to make all necessary budget adjustments related to the R&E Center enhancements project.

SUBJECT: *Enhancements Financing Report*

This memo covers the following:

- Background on the R&E Center enhancements
- Pandemic-related economic conditions and R&E financing
- Economic activity generated by the enhancements
- Recommendations on implementation of the August 2019 R&E Center Enhancements Finance Plan
- Timelines
- Summary of community engagement

Background

The R&E Board has been engaged in policy development to achieve environmental, economic and social benefits through the Recycling & Energy Center (R&E Center) since 2013. The R&E vision, "vibrant, healthy communities without waste," is being pursued through a variety of efforts. While R&E activities and each county's programs compliment each other in working upstream, preventing waste and increasing source-separation of recyclables, the R&E Center will be redesigned and repurposed to recover more value from waste.

The effort to recover more value from waste has progressed since purchase of the R&E Center. Work already completed includes construction of the new building addition to streamline the bulky waste loadout area and provide storage space, creating room for further enhancements. Procurement is underway for a robotic separator to clean the non-ferrous metals that are separated on the processing lines to make these used beverage containers more valuable at market. Procurement is also underway to add a magnet to the bulky waste shredder, allowing the metal from mattresses to be recycled, and the fluff to be used as refuse-derived fuel (RDF).

These improvements will be followed by enhancements to the R&E Center to accommodate source-separated organics and to separate high-value recyclables from trash. Also under development are plans to use the remaining waste, now used to produce refuse-derived fuel, to produce alternate products through more modern conversion technologies, such as gasification, digestion to biofuels and/or chemical recycling.

As a step to achieve the next phase, the R&E Center will require expansion and system improvements. At its March 2019 meeting, the R&E Board received the preliminary design documents for enhancements to the R&E Center. At its May 2019 meeting, the board stated its intent to move forward with the enhancements. This triggered a series of actions, including approval of financing and procurement plans at its August 2019 meeting, pursuit of partial state funding, and authorization to proceed with development of construction-ready engineering documents.

Pandemic-Related Economic Conditions and R&E Financing

The JLT, R&E staff and finance team have approached these recommendations fully aware of and with understanding of the significance of the current COVID-19 pandemic. The current economic downturn has affected the waste and recycling industry, both in positive and negative ways. Because the R&E Center operates as an enterprise fund and relies solely on R&E Center revenues, the status of waste deliveries as the pandemic proceeds is important to understand. With that in mind, R&E has evaluated probable and possible effect of the economic uncertainty on the solid waste stream and economics of trash, and has also conducted financial tests to determine the resilience of R&E's finances.

Projections of the future of the economy are challenging. Relating economic projections to waste generation is also difficult. However, staff and consultants have been gathering information that can inform the R&E Board's decision moving forward. While there are predictions at the national and state level, it is important to note that "all trash is local." The composition of the East Metro area residential, commercial and industrial waste generators determines the volumes and types of waste and recyclable material.

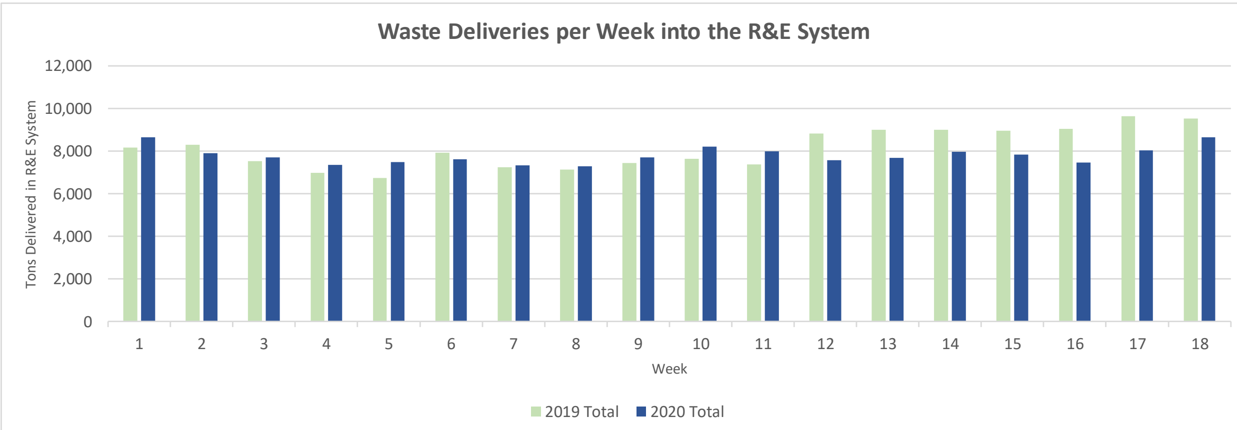
This section of the report is a summary of the pandemic's expected effects on waste generation, short term and long term. In short, these are the findings:

- The gross domestic product (GDP) is a good predictor of waste generation, but it is not exact and does not always reflect local conditions.
- The GDP is expected to drop for three quarters in 2020, and then begin to grow again. This means an economic recession for three quarters, then resumed economic growth.
- The rate of growth is uncertain – the downturn is heavily related to consumer activity, and it depends on the rate of business openings, jobs, and consumer spending.
- Waste volumes in the East Metro have declined over the past eight weeks, then have rebounded somewhat.
- Waste volumes will likely expand to pre-pandemic levels.
- Financial analyses in this report take the pandemic into account.

Short Term Effects

Current effects on the waste industry will likely not last. Executive orders closing many businesses resulted in a significant reduction in commercial and industrial waste generation. At the same time, residential waste volumes have increased with more people staying at home. Some of the residential increase is attributed to home clean-outs.

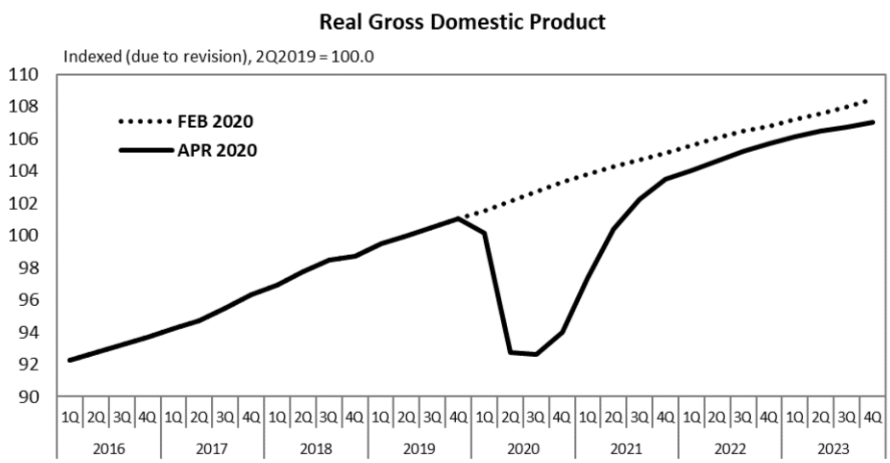
Through May 4, this year's deliveries at the R&E Center were 140,546 tons, compared to 146,618 tons in 2019, a difference of 6,072 tons, or 4%. Between March 17, 2020 and May 4, 2020, deliveries have been below 2019 levels for the same period by 13%. Week-to-week comparisons show an initial drop, then rising deliveries to approach 2019 levels. Commercial tonnage is expected to increase as businesses reopen in late May, which will begin to close the gap with 2019. The graph below compares first quarter 2019 waste totals by week to 2020. At this time, R&E projects a 0-5% reduction in total annual deliveries for 2020, which would be 440,000 tons delivered in 2020 compared to 462,000 tons in 2019. With regard to R&E Center receivables, there have been no issues with hauler payments, nor a departure from previous remittance patterns. The reopening of commercial establishments and industries in the two counties will be a key factor in total waste receipts in 2020.



<u>Long Term Effects</u>

The current economic condition is unprecedented. While the great recession in 2009 had a downturn that both began and was resolved gradually, the current situation was abrupt, as shown in the drop in waste deliveries between weeks 11 and 12 in the graph above. There is no consensus about how growth will occur looking forward.

A reasonable projection produced by the State of Minnesota's [May 2020 Interim Budget Projection] outlines, at a national level, projected changes in the GDP, shown in the graph below:



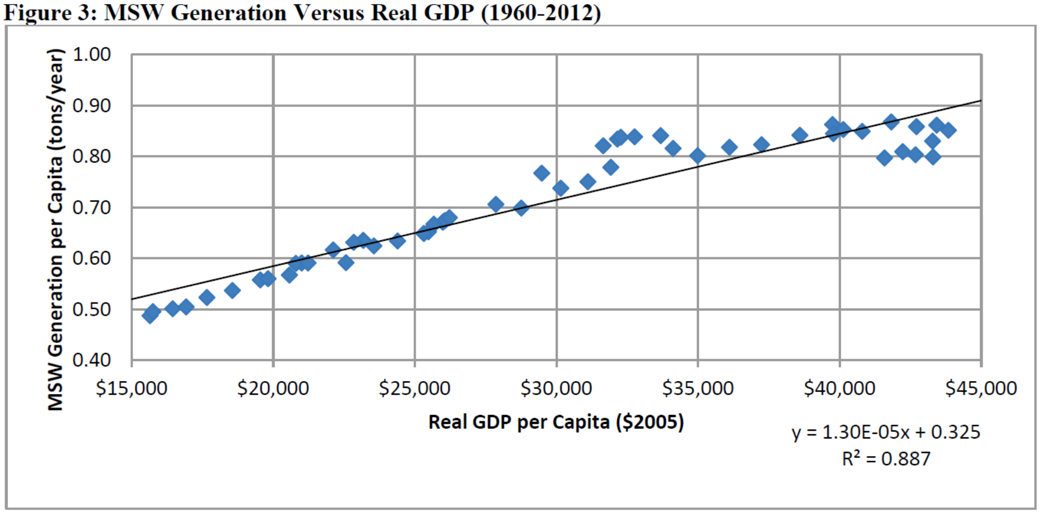
The Interim Budget Projection states that:

> *"IHS Markit (IHS), Minnesota's macroeconomic consultant, is now forecasting a three-quarter recession, resulting in a 5.4 percent decline in real GDP in 2020.*
>
> *"IHS expects real GDP to reach its pre-pandemic level in mid-2021, but within our projection horizon, GDP does not get back to where it would have been without the pandemic. Moreover, the recession is expected to dampen business investment, and slower growth in capital services will limit future economic growth. Consequently, while IHS forecasts the U.S. to regain full employment in 2024, they expect GDP in that year to be below the level they forecast for 2024 February."*

In other words, after a recession over three quarters of the year, economic growth will occur, but reaching pre-pandemic rates will likely take several years.

There is a strong relationship between GDP and waste generation, as cited by the Environmental Protection Agency in "Economic Indicators and Scoping Analysis," 2013. The following figure shows that strong relationship. The higher the GDP per capita, the more trash is produced. In Figure 3, the solid line represents GDP, and the diamonds represent per capita waste generation.

Figure 3: MSW Generation Versus Real GDP (1960-2012)



From the Interim Budget Projection, one can infer that there will be a drop in waste generation during a recession lasting three quarters and then an increase as GDP grows. While the relationship is strong, waste generation will not mirror GDP exactly. And the local economy in the East Metro will determine the effects on waste.

A March 17, 2020 Brookings article, "The Places a COVID-19 Recession Will Likely Hit Hardest," states "*While essentially all of America will likely be affected by COVID-19's economic effects, those effects will be distinct and varied from place-to-place. Given that, we must not only act quickly, but also attend to the unique regional and local impacts within this national crisis.*" This article reports and builds on work by the chief economist at Moody's, which examines the five most vulnerable industries in the current situation and looks at the share of those industries in 384 metropolitan areas across the U.S. The Minneapolis-St. Paul-Bloomington region ranked 248th in their list, indicating a certain level of resilience and less vulnerability than other regions. The five industries at highest risk are: leisure and hospitality, travel arrangements, employment services, transportation, and mining.

Reports from other sources on the subject of waste generation related to the current pandemic find some noted effects and probable changes in the solid waste stream. Below are three examples:

- Out of consumer concern for hygiene coming out of the pandemic, there may be an increase in packaging to protect products.
- There may be less comfort with dining-in restaurants and possibly an increase in take-out packaging.
- During an economic downturn and corporate belt-tightening, less investment is likely on "greener" innovations. On the other hand, some businesses will see this as an opportunity to streamline processes and packaging, with a focus on sustainability. Others may be ready to invest more in the circular economy aimed at waste elimination and continual use of resources.

In May 2020, Foth Infrastructure and Environment, LLC contacted David Bidermen, executive director/CEO of the Solid Waste Association of North America (SWANA) to get a national view on waste generation and the impacts of the pandemic. He reported that, in an April 2020 SWANA presentation on COVID-19 impacts, Michael E. Hoffman, managing director, Stifel, indicated that he anticipated that the economy would recover in 2021 along with growing waste volumes. Mr. Biderman, who is in regular contact with firms in the industry, indicated that in his opinion, industry is past the worst of the current debacle. Mr. Biderman's view also is confirmed by earnings calls recently held by Waste Management, Republic, and Waste Connections. Overall, commercial waste volumes continue to be down approximately 20 percent. Residential volumes are trending 5-30 percent higher. Mr. Biderman felt that volumes have normalized for the solid waste sector. His caveat was that volumes could again decrease if a second surge of COVID-19 occurs this fall.

A May 12 article in Waste 360, an online industry journal, reported on the major publicly-traded waste firms, most of which recently held conference calls with first quarter results. These firms include Waste Management, Republic Services and Waste Connections, which operate in the East Metro. Firms reported on the significant downturn in late March but noted stabilization. "Across the board, the companies noted recent green shoots and signs of a bottom, if not an uptick, that generally appeared in the last week of April or first week of May. RSG [Republic Services] was perhaps the most optimistic in stating that a bottom had been put in, but WM [Waste Management] also noted that the rate of volume decline had improved, while WCN [Waste Connections] noted that a number of its metrics had turned in the last week: Service increases exceeded service decreases and net new business went positive again." The article noted that firms are being cautious, continuing with cost saving measures, deferring mergers and acquisitions, and waiting to see second quarter results.

Economic Activity Generated by the Enhancements

R&E Center Enhancements – Effect on the Minnesota Economy:	
Construction:	**155 – 198 new jobs; $55,556,254 - $64,718,413 added to the economy**
Operation:	**42 new jobs; $9,099,556 added to the economy**

Dr. William F. Lazarus, a professor of applied economics at the University of Minnesota, prepared a report for R&E titled "Economic Impact of the Ramsey/Washington Recycling & Energy Center," which can be found in Attachment 1. The IMPLAN input-output software package and 2017 IMPLAN data was used for the analysis.

The report presents an economic impact analysis of the R&E Center. Three main scenarios are compared: R&E Center in its current state, R&E Center with the planned enhancements implemented for organics recycling and recyclables recovery, and R&E Center with enhancements and RDF being processed for alternative use.

- In its current state, the R&E Center, with 66 employees and $36,715,217 in spending, results in an overall economic impact in the state of 367 jobs and $88,319,850 in economic activity.

- With the addition of the R&E Center enhancements (with an additional 18 new employees at the R&E Center) and in full operation, the overall impact rises to 490 jobs and $97,419,406 in economic activity.
- The enhancements alone generate 42 additional jobs (18 at the R&E Center and the rest are indirectly created) and $9,099,556 in economic activity. During the two-year construction period for the enhancements, the impact is between 155 and 198 jobs, and $55,556,254 and $64,718,413.

Finance Plan

At its August 2019 meeting, the R&E Board approved the enhancements financing plan and authorized several actions related to financing of the enhancements for organics and recyclables recovery. These include a state bonding request, with a local match using a loan from the counties using general obligation bonds, and consideration of possible outside funding. Since that time, the counties have aggressively pursued state bonding, a finance team has developed specific recommendations for local funding, and the JLT has applied for funding from the Closed Loop Fund.

Closed Loop Fund

An application was submitted for a $5 million zero-interest loan from the Closed Loop Fund, which is managed by Closed Loop Partners, an investment firm focused on the circular economy that manages a revolving loan fund. While R&E had conversations with the Closed Loop Fund several times since 2016, and had been led to believe that the enhancements project had elements that would be eligible for a loan, the application that was submitted in March was turned down by the Closed Loop Fund. JLT is following up to identify specific reasons for the decision.

State Bonding

Applications for state bond funds were submitted to Minnesota Management and Budget (MMB) for $21 million, and the Minnesota Pollution Control Agency (MPCA) for $8 million (the maximum request through the MPCA's Capital Assistance Program (CAP)). Lobbyists have been retained to work with the counties' lobbyists on this effort.

The Governor included $8 million for the R&E Center project in the MPCA CAP bonding request. Bills were introduced in the House and Senate, which include both the $8 million and $21 million requests. Tours of the facility were held for the Governor, Governor's staff, the MPCA commissioner, the MMB commissioner, and Senate and House members.

The legislature is scheduled to adjourn on May 18, prior to the Facility & Finance Committee meeting, but after this document was prepared. The committee will be updated about the status of state bonding at its May 21 meeting.

Local Funds

The JLT created a finance team comprised of R&E staff, respective county finance departments, R&E and county financial advisers (Ehlers and Baker-Tilly, respectively), bond counsel for the counties, and attorneys (Stoel Rives and county attorneys) have prepared the process and documents to proceed with funding the enhancements upon R&E Board and county board approvals.

The finance team examined the use of general obligation bonds issued by the counties versus revenue bonds issued by R&E. As a result of the analysis, the team recommends the use of general obligation bonds, issued by Ramsey County on behalf of both counties.

R&E has requested that Ramsey and Washington counties provide loan(s) for capital funding of the proposed enhancements. In 2015, when the facility was initially purchased, the counties provided the acquisition capital in the form of loans according to established funding percentages of 73% for Ramsey County and 27% for Washington County. Ramsey County issued bonds to fund its share. Washington County funded its share from available cash. In each case, the Recycling & Energy Board entered into a loan agreement and promissory note with each respective county to repay the obligations from Net Revenues of the facility. The two 2015 county loans are on a parity, or equal claim, with one another.

Due to the amount of funding anticipated to be needed and if the enhancements project is approved, the counties expect to access the capital markets (sell bonds) as the funding source. R&E has requested that the counties use their general obligation pledges to back the financing/s. Any county's financing that goes forward is subject to approval in final form by the respective county boards. However, after consideration of options, finance department staff from both counties have agreed to bring forth a funding proposal that includes the following basic elements:

1. A single fixed rate bond issued by Ramsey County for the full amount needed (the "County Bond"). The County Bond will be a general obligation of Ramsey County; however, 27% of the debt obligation will be secured by a general obligation bond issued by Washington County to Ramsey County for its 27% share. Repayment terms of Washington County's bond will mirror those of the Master Bond.
2. A final bond structure is yet to be determined; however, it is anticipated that the overall term will be 20 years. Alternatives are being considered that will moderate the debt service cost in the first two years as the project is being completed. Alternatives could include interest only and/or capitalized interest.
3. County, state and federal bonding requirements for the proposed financing have been preliminarily reviewed by bond counsel. In particular, requirements related to the average life of the bonds and the average life of the items being financed are being reviewed. Preliminary legal findings indicate that such considerations should be able to be accommodated within a 20-year debt structure.
4. Ramsey County and Washington County will loan their respective funding amounts to R&E, funded by the Master Bond. The repayment of the R&E debt to each county will be evidenced by a loan agreement(s) and secured by a pledge of Net Revenues of the facility. The loan agreement(s) will be on a parity with the 2015 loan agreements: each loan will have an equal, proportionate claim on Net Revenues as each of the other loans. Repayment of the 2020 loan(s) will be pledged to Ramsey County in support of the Master Bond.
5. Due to the amount of the combined 2015 and 2020 borrowings, exacerbated by impact of the current pandemic, additional covenants may be requested of R&E. Any such covenants will be discussed and documented prior to final action of R&E, Ramsey County and Washington County with consideration given to the impact, if any, on operations or tipping fees.
6. R&E would pay back the 2015 and 2020 loans using Net Revenue from the facility, primarily from tipping fees. Net Revenue is defined under the existing loan agreements to include "…gross revenues of the facility (including without limitation operating revenues and any contributions by Washington County or Ramsey County of County Environmental Charge revenues) after payment of all reasonable expenses of the current operations and

maintenance of the Facility and will be calculated in accordance with the policies and procedures established in accordance with Section VII.F of the Joint Powers Agreement."

The primary source for payment of debt service is expected to be Recycling & Energy facility revenues. The use of Ramsey County and Washington County general taxing authority is not anticipated and would only be sought in the absence of all other available R&E resources.

As noted in this memo, the COVID-19 pandemic has impacted daily life and private and public economics. As a result, additional financial analyses were performed by R&E and the description of the proposed funding mechanism described above is subject in all respects to review of those analyses and the ability of the bond market to fund the anticipated Master Bond.

R&E has identified additional resources and actions to support debt service payments should net revenues of the R&E Center be insufficient to meet debt service requirements. Any allocation of these resources would be intended to mitigate or eliminate the need to invoke county property tax levies or other county general support for debt payments. Those resources and actions are set forth below in priority order:

1. Expenditure or other budget adjustment during the fiscal period
2. Deployment of contingency budget towards debt service
3. Adjust the tipping fee (90-day implementation window)
4. Draw on the Joint Activities Fund balance (R&E General Fund balance)
5. Draw on ORF/ERF balances (with pledge to replenish adopted in policy)
6. Equipment Maintenance & Replacement Reserve balance
7. Equipment Maintenance & Replacement Reserve budget
8. County Environmental Charge (short-term loan from counties)

Degradation in R&E revenues would likely be foreseen as a result of declining volumes that would manifest over time. The JLT would bring mitigation strategies before the R&E Board for consideration and action, as well as consulting with both counties through such process. It should be noted that the R&E Center's cost structure is highly correlated to processing volumes. Therefore, variable expenses would decline at some proportion to waste volumes.

The balances in the funds referenced above as of December 31, 2019 are as follows:

Joint Activities Fund	$3,120,414
ORF	$4,100,000
ERF	$1,650,000
EM&R Reserve	$514,000
TOTAL	**$9,384,414**

Ehlers conducted a sensitivity analysis to test the ability of these strategies to respond to a prolonged reduction in waste volumes, which was provided to the county finance team. The analysis assumed a sustained 10% reduction in waste volume, starting in 2020 and continuing through 2025. The purpose of this "stress test" was to illustrate several ways in which R&E could mitigate a volume-driven reduction in tipping fee revenues – including reducing variable operating costs and contingencies, raising the tipping fee, and drawing on reserves. The sensitivity analysis showed the R&E could successfully apply a variety of strategies to maintain a strong financial position with a substantial reduction in waste volume over a prolonged period.

Financial Impacts

Ehlers has prepared a template for a pro forma for the enhancements. Because the level of state bonding is not known at this time, a pro forma is not included in this memo, but will be provided at the May 21 Facility & Finance Committee meeting.

Financing Timeline

Attachment 2 is the timeline for financing the enhancements, starting with R&E Board approval to proceed on May 28. This includes actions to be taken for:

- Ramsey County to consider a bonding ordinance for the County Bond
- Washington County to consider a bonding resolution for its general obligation pledge to Ramsey County for Washington County's portion of the County Bond
- Ramsey and Washington counties to each consider
    - Loan agreement(s) between the counties and R&E Board, contingent on sale of bonds
    - An agreement between Washington County and Ramsey County on joint bonding

This schedule results in funds being available for final construction design, equipment development and construction on November 15, 2020.

Construction Timeline

The R&E's construction manager, Adolfson & Peterson Construction, has prepared a construction schedule, which is shown in Attachment 3. This schedule is aligned with the Financing Timeline, and shows a construction start in April 2021, with the DCB building and equipment complete in early December 2021, and the recycling recovery system complete in late July 2022.

Community Engagement

Community engagement has helped inform major decisions made by the counties and R&E regarding the region's waste management system. R&E sees community engagement work as an ongoing work critical to building and maintaining relationships, educating partners and the community, and informing R&E's work. Attachment 4 summarizes community engagement to date around the following topics:

- Purchasing the R&E Center
- 2018-2038 county solid waste management master plans
- Waste designation
- Waste-to-energy
- System enhancements – recyclables recovery and durable compostable bags

Community engagement informed and shaped each of these decisions and continues to do so for ongoing work.

Attachments

- Attachment 1: Dr. Lazarus' Economic Analysis report
- Attachment 2: Bonding Schedule
- Attachment 3: Construction schedule from A&P
- Attachment 4: R&E Community Engagement Summary
- Attachment 5: Memorandum from Baker Tilley