Chittenden Solid Waste District

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TO: Board of Commissioners
FROM: Sarah Reeves, Executive Director
Nola Ricci, Director of Finance
DATE: July 22, 2022
RE: CSWD New Materials Recovery Facility –Cash Flow and Assumptions, Financing (Public Session)

In January 2022, staff presented to the Board of Commissioners a Materials Recovery Facility (MRF) a cost-benefit analysis performed by SCS Engineers that presented a comparative analysis of several scenarios for the materials recovery program and operations (report included in packet). In February 2022, staff presented a revenue sufficiency analysis (also prepared by SCS Engineers) of three of the scenarios included in the CBA (report included in packet), and which recommended moving forward with a new build, 50,000 ton per year MRF as the preferred alternative. CSWD staff have further refined the revenue sufficiency analysis to update the detail with information included in the preferred equipment provider RFP response and created a 10-year cash flow analysis.

The cash flow assumes a worst-case scenario for inbound material and a conservative estimate for material revenue sale. Cash flow is negative until Year 2 to Year 3 of new MRF operation, due to anticipated MRF operating contract terms in Years -3 through -1, and due to accessing $6M in 0% interest loan proceeds requiring quick repayment (five years) as opposed to the bond bank 25-year repayment term. To solve for the negative balance, CSWD will establish a sinking fund for the purpose of debt service repayment and use the funds to supplement shortages in revenue in the first five years of debt service. *Due to ongoing contract negotiations with the MRF operator Casella, additional details of the cash flow assumptions will be reviewed in Executive Session.*

__Basic Cash Flow Assumptions:__

1. 35,000 tons inbound per year. Worst-case baseline inbound tonnage assumption.

2. Two percent (2%) annual growth for in-district tons. Gradual increase from natural sources, like increased population and changes to accepted materials list.

3. Five percent (5%) increase in sorted materials yield due to new equipment sorting to 92-95% bale purity.

3. Tip Fee of $80/ton used to model a 10-year average tip fee.

5. Years -3 through -1 based on current 10-year ACR average. $95 per ton.

6. Five percent (5%) increase in Average Commodity Revenue rate in first five years of new system as the value of marketed materials improves and as system produces additional materials for sale, such as a new fiber grade and a segregated polypropylene bale. Quality-related increases slow after first five years; Additional 2% increase in Years 6-10.

7. Residue percentage increase to ten percent (10%) from current seven percent (7%) as materials are better sorted. Residue currently escaping to marketed bales will be properly diverted to disposal. Increased residue will result in higher disposal fees.

8. Operating expenses increase over time, some based on percent increase such as for anticipated increases in utility costs, others based on increase in tons processed.

9. Processed Glass Aggregate costs decrease over time, eventually by 50% by Year 10, due to improved glass processing conditions at the MRF. The goal is for glass to become cost neutral at worst, revenue positive at best. This is dependent on changes to Vermont Agency of Natural Resources rules.

10. Debt service payments based on current interest rate, provided by VT Municipal Bond Bank, for $16M principal amount. Year -3 through Year 2 debt service amounts represent repayment of 0% interest loan from Closed Loop Fund and interest-only payments from bond proceeds. Year 3 through Year 25 debt service payments are interest and principal repayment to the VT Bond Bank.

11. The first four years of debt repayment will need sinking fund assistance due to anticipated MRF operating contract obligations (current MRF). Sinking Fund will be seeded with $2.5M. This amount approximates nearly four years of principal. The seed money will come from revenue in excess of expenditures generated in FY2022.

12. Excess funds begin in Year 2 of new MRF. After initial sinking fund drawdowns, sinking fund to cap at $1.3M. Revenue in excess of sinking fund cap will be moved to capital for future investment.

13. Capital contributions begin in Year 2 towards anticipated need at Year 11 for planned upgrades and/or refurbishments.

Financing

The project price is currently estimated at $26M. CSWD's charter requires voter approval to enter into long-term debt. Voter approval will be sought in the 2022 general election cycle, culminating on November 8, 2022.

The financing plan assumes a 0% loan from the Closed Loop Fund in the amount of $6M, bond proceeds from the VT Municipal Bond Bank in the amount of $16M, grant proceeds from The Recycling Partnership in the amount of $500k, and CSWD cash-on-hand from capital funds in the amount of $3.5M. The first five years of repayment to the bond bank will be interest-only to keep overall debt service payments manageable and accommodate the payback schedule of the Closed Loop Fund. The cash on hand contribution may be offset by a grant from the Environmental Protection Agency via a federal Solid Waste Infrastructure for Recycling grant, however at the time of this memo, the grant parameters have not yet been determined. When the application period opens in September 2022, CSWD will apply for a maximum award.

Source of Funds	**Amount**
VT Municipal Bond Bank	$16,000,000
Closed Loop Fund	$6,000,000
CSWD contribution*	$3,500,000
The Recycling Partnership	$500,000
TOTAL	**$26,000,000**
*Less EPA grant funding	

The project currently is unable to support full build-out of the Education Center portion of the MRF. The building will be constructed with the Education Center as an empty space and grants will be sought to fund the center's completion. The estimated cost as currently envisioned is between $1.0-1.5M. The goal will be to have the center open within six – twelve months of MRF commissioning.