

MEMORANDUM

TO: MRC Board of Directors
FROM: Greg Louder, Executive Director, MRC
George Aronson, Principal, CRMC
RE: Funding of Joinder Agreement Reserve Funds
DATE: 18 April 2017

As discussed at the last quarterly meeting, CRMC anticipates that the balance available in the accounts of Joining Members for reserve funds as of March 31, 2018, will be approximately \$12.5 million rather than in the range of \$20.83 million to \$23.33 million. The reduced expected balance reflects the exclusion of (a) \$5.0 million for site acquisition and development that would be paid in 2017; and (b) \$11.6 million that would be reserved for payment to Departing Municipalities in the second quarter of 2018.

The MRC had originally anticipated that Joining Members that are Charter Municipalities would commit to deliver at least 150,000 tons per year of MSW; that Departing Municipalities would be limited to less than 30,000 tons per year of MSW deliveries; and that \$4.17 million to \$4.67 million in cash would be paid out to the Departing Municipalities. Instead, the Joining Members that are Charter Municipalities ended up committing to deliver only 102,513 tons per year of MSW.¹ The result is a gap of up to \$1.267 million as compared to the value of up to \$13.767 million needed for the full amounts of the reserve funds listed in Exhibit B to the Joinder Agreements. The MRC Board will need to revisit the levels at which each reserve fund is set in order to address this gap.

The gap will also need to address the following two additional considerations:

- A potential need for up to \$1.0 million for a Community Development Fund to cover infrastructure improvements not included in the original budget of \$5.0 million for site acquisition and infrastructure development.
- A potential need to segregate the \$3.0 million identified in the Joinder Agreement for a delivery sufficiency reserve fund from other funds, perhaps through deposit in an escrow account held by the project lender and subject to a special account control agreement.

Under these circumstances, CRMC recommends that the Board consider the following revised allocation of reserve funds:

¹ Charter Municipalities that are Joining Members (excluding Oakland, for which PERC did not collect separate data) delivered 106,200 tons of MSW to PERC in calendar year 2016.

	<i>Joinder Agreements, Exhibit B</i>	<i>Recommendation</i>
Site acquisition and infrastructure development	Up to \$ 5.000 M	\$5.000 M
Community development fund		Up to \$1.000 M
Building reserve fund	Up to \$ 7.000 M	\$4.360 M
Delivery sufficiency reserve fund	Initial amount of \$ 3.000 M	\$3.000 M
Closure reserve fund	\$ 1.167 M	\$0.000
Bridge Waste transportation reserve	Up to \$ 1.000 M	\$1.000 M
Target Value Reserve Fund, first 36 months after the Commercial Operation Date, distribute \$5/ton to Equity Charter JMs and \$3/ton to New Charter JMs Available for later distribution	\$ 1.600 M based on 98,500 tons/year for Equity Charter JMs and 8,800 tons per year for New Charter JMs \$ 0.000	\$1.600 M \$1.540 M
Subtotal	Up to \$18.767 M	\$17.500 M
<u>Expended in 2017</u>		
Site acquisition and infrastructure development	(\$5.000 M)	(\$5.000 M)
Community development		(\$1.000 M)
Reserve fund cash need	up to \$13.767 M	\$11.500 M
Projected cash available	\$12.500 M	\$11.500 M
Surplus (funding gap)	(Up to \$1.267 M)	None

The recommendation reflects the following changes:

- Set aside up to \$1.0 million for the Community Development Fund to be spent in 2017. This fund, which would support project needs, would be allocated among Joining Members only.
- Fund the building reserve fund at up to \$4.360 million, which is the amortized value of the building per Exhibit C of the Site Lease at the end of the Initial Term of the Site Lease, rather than at up to \$7.000 million, which is the building value at the start of the Initial Term.
- Eliminate funding of the closure reserve fund at \$1.167 million now that many closure issues have been resolved in the Settlement Agreement. Additional issues related to PERC closure that emerge in 2018 might be funded by offset as a cost of recovering the Debt Service Reserve Fund, which is allocated among all Equity Charter Municipalities, rather than from funds owned solely by Equity Charter Municipalities that are Joining Members.
- Designate remaining funds toward the Target Value Reserve Fund rather than have them remain unassigned.