Memorandum

MIAMI-DADE COUNTY

Date: June 3, 2015

To: Honorable Chairman Jean Monestime
and Members, Board of County Commissioners

From: Carlos A. Gimenez
Mayor

Subject: Solid Waste Residential Collection Fees

Our current five-year forecast for the Solid Waste System Enterprise Fund (System) reflects expenditures exceeding revenues on an annual basis beginning in Fiscal Year (FY) 2017-18 resulting in a depletion of reserves. These operational deficits are projected to be $10.8 million, $25.9 million and $41.3 million in FY 2017-18, 2018-19 and 2019-20, respectively. Operational efficiencies such as the implementation of automated garbage collection, route automation, and the implementation of bulky waste route scheduling have significantly reduced operational costs and improved productivity. Other strategic management initiatives have also helped to avoid additional costs.

Moody's Investor Services is considering the lowering of the System's bond ratings from "A2 with a negative outlook" to "A3 with a negative outlook". A copy of the Moody's report that discusses the potential downgrade is attached. The major fiscal issue cited by the report is the System's declining debt service coverages i.e. the deterioration of projected net revenues (operational revenues minus operational expenditures) available to make principal and interest payments to bond holders over the long-term.

Declining debt service coverage levels may also put pressure on the System's Standard & Poor's rating (A+/stable outlook) and its Fitch ratings (A+/negative outlook). The System currently has over $152 million in outstanding bonds, future financing needs of $81 million for capital infrastructure, and $141 million for vehicle loans over the next five (5) years. Rating downgrades negatively impact existing bond holders should they sell their bonds prior to maturity and increase the costs of future System borrowings.

To keep the Board of County Commissioners (Board) informed, over the next few weeks we hope to meet with each Commissioner to discuss the need to increase residential solid waste collection fees, which, it should be noted, have not been increased in nine (9) years. The System is comprised of two (2) operating functions, namely Disposal and Collection Operations. The Collection Operation is funded though residential collection fees and is estimated to be in a deficit in FY 2017-18. Therefore, without a fee increase, the collection fees will not be sufficient to recover the cost of collection operations and debt service coverage would decline substantially. While both Collections and Disposal operate as a System, the Disposal Operation, which includes Disposal Tipping Fees, Disposal Facility Fees, Utility Service Fees, electricity sales, and other disposal fees, cannot subsidize the Collection Operation.

Since the residential solid waste collection fees are billed through the property tax bill governed by Florida Statute 197.362 and Section 18-14 (5) of the County Code, the County is required to publicly notice and approve all non-ad valorem assessment rolls with a rate increase through an ordinance on or before September 15, 2015. As the County has several options regarding both the timing and the amount of the needed increases, we look forward to soliciting Board input as we finalize the FY 2015-16 budget recommendations.

Attachment

c: Honorable Harvey Ruvin, Clerk of the Board
R. A. Cuevas, Jr., County Attorney
Alina T. Hudak, Deputy Mayor and Director of Public Works and Waste Management
Edward Marquez, Deputy Mayor and Director of Finance
Jennifer Moon, Director, Office of Management and Budget

MOODY'S
INVESTORS SERVICE

Rating Update: Moody's places Miami-Dade County's (FL) Solid Waste System Revenue Bonds A2 rating under review for possible downgrade

Global Credit Research - 27 May 2015

Approximately $110 million of rated debt affected

MIAMI-DADE (COUNTY OF) FL SOLID WASTE ENTERPRISE
Solid Waste
FL

NEW YORK, May 27, 2015 --Moody's Investors Service has placed Miami-Dade County's Solid Waste System Revenue Bonds A2 rating under review for possible downgrade.

SUMMARY RATINGS RATIONALE

The review is prompted by the projected decrease in debt service coverage driven by the expiration of the substantially above-market power purchase agreement (PPA) that is resulting in much lower electricity sales revenue. Recent rates in Florida for electricity sales have ranged from $30-$40/MWh, far below the substantially above-market previous contract price of $84/MWh. Power prices are closely correlated with price of natural gas and we do not see material increases in natural gas prices over the next several years. The County has received an indication that they scored highly on a municipality's RFP for power supply resources and will likely be considered for a portion of this total power award, however the contract terms and conditions are not known at this time.

The system also faces the potential loss of several municipal customers that have not yet renewed interlocal agreements (ILAs) that expire October 1, 2015. Additionally, the enterprise will utilize unrestricted cash balances to fund the near-term capital program, which will pressure liquidity downward of the next few years. The A2 rating incorporates the large size of the system, the high proportion of revenues that are paid through disposal and collection fees, and the currently adequate cash balances.

Moody's expects more information in mid-June and will take appropriate rating action and conclude the review at that time.

OUTLOOK

The rating under review for possible downgrade reflects the possibility of the much lower electricity sales revenue due to the expiration of the PPA and lower disposal revenue if several municipal customers do not renew their ILAs with the county.

What Could Change the Rating - UP

*Replacement of the lost revenue from the PPA with a new PPA with terms similar to the previous contract

*Significant progress in extending the remaining ILAs that are not yet renewed

*Rate increases that sustain debt service coverage at current levels

What Could Change the Rating - DOWN

*Non-renewal of the remaining ILAs

*Continued as-available energy sales during falling market prices

*A decrease in debt service coverage below 2.0 times and a decline in liquidity to levels below 300 days cash on hand

*A decline in the competitive position of the department's disposal facilities

STRENGTHS

* Largest source of revenue (residential assessment) is stable and is levied on tax bill, resulting in high collection rates

* Historically measured use of debt financings and low leverage

* Liquidity position has historically been sound at over 300 days cash on hand

CHALLENGES

* No PPA since November 2013; as-available sales to date have resulted in much lower energy revenues

* ILAs with several municipalities expire in 2015 and have not yet been renewed

* No legal flow control enacted and rates that are above-average and tipping fees that are relatively un-competitive

* Additional debt to be issued in both near-term (FYs 2015 and 2016) and medium-term (FY 2021)

* A considerable portion (26%) of the debt service reserve fund is funded by below investment grade surety company Ambac Assurance Corp. (WR)

RECENT DEVELOPMENTS

The system's energy revenues continue to face downward pressure subsequent to the November 2013 expiration of its PPA. FY 2014 energy revenues from as-available sales declined to $14 million, (down $17 million or 55% year-over-year), and the county projects FY 2015 energy revenues to further decline to $11 million. While the county projects FY 2016 energy revenues to remain flat from FY 2015 at $11 million, Moody's views the lower Henry Hub natural gas prices for 2015 and 2016 that are forecasted by the U.S. Energy Information Administration (EIA) as a constraining factor to achieving that level of projected revenue. Moody's most recent price assumptions for natural gas confirms this view of lower pricing. The County has received an indication that they scored highly on a municipality's RFP for power supply resources and will likely be considered for a portion of this total power award, however the contract terms and effective date are not known at this time. In Moody's opinion, the failure to procure another PPA that substantially replaces the previous revenue would continue to place negative pressure on the rating.

DETAILED RATING RATIONALE

REVENUE GENERATING BASE

The system's service area includes the unincorporated county and the municipalities of City of Doral, City of Miami Gardens, City of Sunny Isles Beach, Town of Cutler Bay, Town of Miami Lakes, Village of Palmetto Bay, Village Of Pinecrest, and City of Aventura. The enterprise generates revenue through four main sources, with residential collections revenue as the largest revenue source at 55% of total operating revenue in FY2014. Residential collections fees are billed through the county tax bill system and the fees must be paid in full at the time residents pay taxes, and any failure to pay is handled exactly as county taxes are and a lien may ultimately be placed on the home. Operating revenues are fairly diversified otherwise, comprised of disposal tipping fees (25%), utility service fees (9%), and electric sales (5%).

Disposal tipping fees are primarily from municipalities through ILAs (40% of total FY2014 disposal revenues), or by private haulers Progressive Waste Solutions Ltd. (Ba1 stable) and Waste Management, Inc. (Baa2 stable) through long-term contracts (37% of total FY2014 disposal revenues). Of the eighteen municipalities that commit to deliver all collected tonnage at the system's facilities pursuant to their ILAs, thirteen of these recently renewed or committed to terms extending to 2025 or 2033 and five have not yet renewed. Moody's views the potential for non-renewal as considerable, given the combination of no legal flow control and the competitive environment for solid waste in the county that involves long haul export.

FINANCIAL OPERATIONS AND POSITION

Debt service coverage ratio (DSCR) remained sufficient in FY 2014 at 2.33 times, but is projected to decline in FYs 2015 and 2016. For FY 2015, although DSCR was budgeted at 1.63 times, it is now projected to be 1.41 times due to lower residential collection and utility service fee revenues. For FY 2016, DSCR is projected to be 1.40 times, although if the remaining ILAs are not renewed or if energy sales prices or quantities are not at the levels expected (320,000 MWh at $35 per MWh) then DSCR could be lower than projected. Given that many of the

levers to raise revenue or cut expenses are constrained through contract, one of the few remaining options available is to raise the residential user fee. At this time, management reports that it will propose a residential rate increase to begin in FY 2016; approval will be subject to the Board of County Commissioners vote in September 2015.

Although the county has plans to execute a bond refunding in 2015, the county also plans to issue additional debt which could negate the refunding savings and further pressure the DSCR downwards. Additional debt plans include $142 million in vehicle lease financing from FYs 2015 to 2020 ($18 million of this in fall 2015) and bond financings for capital projects of approximately $24 million in fall 2015 and approximately $60 million in FY 2021.

Liquidity

The system's liquidity position, which includes rate stabilization funds and operating reserves, has historically been sound at over 300 days cash on hand. FY 2014 days cash on hand was 404 days, or a slightly lower 385 days when adjusted for the debt service reserve portion funded by below investment grade surety companies. Portions of the near-term capital plan will be funded through unrestricted reserves, and are projected to reduce liquidity to 344 days and 324 days in FYs 2015 and 2016, respectively.

In FY 2014, the system contributed $2.5 million to the county's Save Our Seniors Homeowner's Relief Fund, which is a fund to provide relief to low income senior citizens by doubling their homestead exemption. While bond counsel opined that this revenue diversion did not violate the bond ordinance, Moody's recognizes that such subsidy depletes the system's unrestricted reserves at a time when certain revenue streams are under pressure.

DEBT AND OTHER LIABILITIES

The system has three series of bonds outstanding: the Series 1998 Bonds, the Series 2001 Bonds, and the Series 2005 Bonds, which in aggregate totaled $110 million at 9/30/2014.

Debt Structure

Debt amortizes evenly through 2021, then decreases to a lower level amortization until final maturity in 2031.

Debt-Related Derivatives

None.

Pensions and OPEB

The financial impact of unfunded and OPEB obligations of this issuer are minor and thus not currently a major factor in our assessment of its credit profile.

MANAGEMENT AND GOVERNANCE

The system is an enterprise fund of the county and is managed by the Miami-Dade County Department of Public Works and Waste Management (PWWM).

KEY STATISTICS

FY2014 tonnage handled:1.65 million tons

5-Year tonnage CAGR 2010-2014: -0.1%

Moody's Debt Service Coverage Ratio, FY2014 (5YR AVG): 2.33x (2.33x)

Debt Ratio, FY2014 (5YR AVG): 25% (32%)

Days Cash on Hand, FY2014 (5YR AVG): 385 days (358 days)

OBLIGOR PROFILE

The county operates a comprehensive county solid waste program which includes 3 transfer stations, 3 landfills, and one waste-to-energy facility.

LEGAL SECURITY

The bonds are secured by net revenues of the comprehensive county-wide solid waste system. The rate covenant requires net operating revenues plus rate stabilization fund deposits to equal 1.2 times of annual debt service expenditures. The additional bonds test requires net revenues plus rate stabilization fund deposits to equal 1.2 times of projected debt service expenditures. Application of rate stabilization fund deposits to the rate covenant or additional bonds test is limited to an equivalent of 20% of net operating revenues. The department has a closed loop flow of funds.

The debt service reserve fund requirement is maximum annual debt service. We note that $15.2 million (or 82% of maximum annual debt service) of the debt service reserve fund is funded by sureties, a credit weakness, or insurance policies. The Series 2001 bonds and Series 2005 bonds are backed by an insurance policy by Assured Guaranty Municipal Corp. (A2/Stable) and a surety by National Public Finance Guarantee Corp (A3/Negative), respectively. However, the Series 1998 bonds are backed by a surety from Ambac Assurance Corp. (WR), a provider that lacks an investment grade rating. The remaining $3 million (18% of maximum annual debt service) is in restricted cash but is not held by a trustee.

USE OF PROCEEDS

Not Applicable

ISSUER CONTACT

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PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Waste-to-Energy Projects published in April 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

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