Memorandum

MIAMI-DADE COUNTY

Date: July 2, 2015

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

From: Carlos A. Gimenez
Mayor

Subject: Moody's Investor Service Downgrades Miami-Dade County Solid Waste System Bonds from A2 with Negative Outlook to A3 with Stable Outlook

---

On July 2, 2015 Moody's Investors Service (Moody's) downgraded the County's outstanding Solid Waste System Revenue Bonds from an A2 with Negative Outlook to and A3 with Stable Outlook. As of April 2015, there were approximately $110 million of Solid Waste System Revenue Bonds outstanding. The Moody's report is attached.

A variety of industry standard operational efficiencies and management initiatives implemented in recent years have reduced costs and improved productivity, allowing Public Works Waste Management to continue meeting or exceeding the requirements of its bond covenants with no change in the household fee for many years. However, in my memorandum of June 3 to the Board, we alerted you to issues with the solid waste credit and in particular, to the potential for operating deficits (expenditures exceeding revenues) near term, which reduce the department's liquidity or reserves. This also impacts debt service coverage through reduced net operating revenues available to make debt service payments.

This report indicates that Moody's considers additional pressure on disposal revenues a risk factor for making coverage and meeting expenses. Moody's cites the impact of the expiration of the contract for power sales from Resources Recovery. Energy prices that drive power sales revenue (split equally with the operator) have fallen significantly over the past two years in the open market and are projected to remain low for the foreseeable future. Moody's also cites uncertainty associated with the renewal of certain inter-local agreements for disposal services. While the County has moved aggressively to address these issues including a future power sales award with the City of Homestead and through ongoing negotiations with its municipal disposal customers, these remain risks which Moody's is now factoring into its rating.

Notwithstanding the credit concerns outlined, the Solid Waste System remains an investment grade credit at the A3 rating due to "...its stable residential assessment base of customers, a measured use of debt financing, low leverage and a historically sound level of at least 300 days cash on hand." The Stable Outlook indicates a low probability of a rating change unless there is a material event – positive or negative – that could affect the credit profile of the Solid Waste System. We will continue to keep the Board apprised of any future developments in this regard.

Attachment

c: Robert A. Cuevas, Jr., County Attorney
Edward Marquez, Deputy Mayor/Finance Director
Alina Hudak, Deputy Mayor/Public Works Waste Management Director
Jennifer Moon, Director, Office of Management and Budget
Blanca Padron, Deputy Director, Finance Department
Frank P. Hinton, Director, Division of Bond Administration, Finance Department
Charles Anderson, Commission Auditor

MOODY'S
INVESTORS SERVICE

Rating Update: Moody's downgrades Miami-Dade County's (FL) Solid Waste System Revenue Bonds rating to A3; Outlook Stable

Global Credit Research - 02 Jul 2015

Approximately $110 million of rated debt affected

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

NEW YORK, July 02, 2015 --Moody's Investors Service has downgraded Miami-Dade County's (FL) Solid Waste System Revenue Bonds rating to A3 from A2. The outlook has been revised to stable. This action concludes the review for downgrade that was initiated on May 27, 2015.

SUMMARY RATINGS RATIONALE

The downgrade 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 been awarded a portion (15 MW) of the City of Homestead's RFP for power supply resources, however the contract will not commence until January 2020.

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 A3 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.

OUTLOOK

The outlook is stable as the A3 rating category accounts for the continued uncertainty with the remaining ILA renewals but the size and strength of the service area should allow the system to maintain financial performance commensurate with peers in the A3 rating category. The stable outlook also reflects Moody's expectations that management will continue to seek board approval of a rate increase for residential collection fees.

What Could Change the Rating - UP

*Replacement of the lost revenue from the previous PPA with new additional PPAs 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 levels above 2.0 times

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 1.5 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); another portion is in restricted cash but not held by a trustee

*Funding of long-term landfill closure costs with restricted cash reserves is at 15% in FY 2014

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 been awarded a portion (15 MW) of the City of Homestead's RFP for power supply resources, however the contract will not commence until January 2020. Additionally, the contract will only replace a portion (approximately 40%) of the quantity sold under the previous PPA, and will only be at a contracted price of $51.95 per MWh, or 62% of the previous contract price of $84 per MWh. 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 nonrenewal 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 2016 to 2020 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

Charles W. Parkinson, Jr., Senior Bond Analyst 305-375-5147

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

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Analysts

Sarah Lee
Lead Analyst
Public Finance Group
Moody's Investors Service

Chee Mee Hu
MANAGING_DIRECTOR
Public Finance Group

Moody's Investors Service

Kurt Krummenacker
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.

For Japan only: MOODY'S Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of MOODY'S Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal

and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.
MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.