January 25, 2019

City of Salinas
Attn: Ray Corpuz, City Manager
200 Lincoln Avenue
Salinas, CA  93901

Subject:  Further Financial Assurances from City of Salinas Regarding possible JPA Withdrawal

Dear Mr. Corpuz,

On behalf of the Salinas Valley Solid Waste Authority (Authority) Board of Directors, we believe in the public benefit and cost efficiencies promoted by the leadership of the City of Salinas in the formation of the Authority in the 1990’s. The wisdom of that decision has been proved for over twenty years with the provision of cost-effective solid waste and recycling services to our Salinas Valley residents. We do not wish to lose our vital partner in service to our Salinas Valley residents.

Unfortunately, on November 20, 2018, the Salinas City Council voted to provide the Authority with notice of intent to withdraw as a member of the Authority. Consistent with Section 19 of the Joint Powers Agreement dated January 1, 1997, and amended as Agreement No. A-07261 (JPA), the notice letter triggers a formal legal process over a one-year period. The letter requires the remaining members to ensure that adequate financial provision is made for the withdrawing members bonded indebtedness and other financial liabilities. The remaining members are also required to begin preparing necessary agreements for the withdrawal process and restructuring of the Authority recognizing that Salinas provides approximately 62% of the Authority waste stream and revenue.

Consistent with the above-noted JPA obligations, Salinas must provide both an annual bond debt service payment of approximately $2,900,000 and an ongoing multi-million-dollar guarantee of environmental liabilities for the Authority landfills. Additionally, the Authority will need to prepare for significant rate impacts to our remaining members, the significant waste stream and revenue reductions, and notify its bondholders of the implications and how Authority will operate and continue to meet its obligations.

The notice of intent and possible withdrawal have significant financial implications on both Salinas and the Authority, including credit and bond ratings of both entities. This letter requests the City of Salinas provide further financial assurances to ensure compliance with their contractual obligations in the event Salinas withdraws as a longstanding and founding member of the Authority. The assurances can be in the form of a dedicated revenue stream or trust fund setting aside enough revenues to address:
1. Annual bond debt service, post-closure landfill care and related administrative expenses of approximately $2,900,000. The bond repayment period runs through FY 2031/32.

2. Guarantee to provide multi-million-dollar funding necessary to address any future environmental liabilities and regulatory compliance related to the Authority landfill operations.

Please consider these matters in the preparation of your upcoming FY 2019-20 budget and provide the Authority more specific details on the existing dedicated revenue sources to meet your Authority contractual obligations. We can then provide that detail in our financial disclosures to all our financial stakeholders and begin crafting a withdrawal agreement for the remaining members.

Sincerely,

[Signature]

Patrick Mathews, General Manager
Salinas Valley Solid Waste Authority

Copy to: Salinas Valley Solid Waste Authority Board of Directors
Salinas City Council
Matt Pressey, Finance Director City of Salinas
Jim Sanchez, Authority Interim General Counsel