

**CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY  
BOND FINANCING PROGRAM  
Meeting Date: August 21, 2018**

***Request To Approve Final Resolution Authorizing the Issuance Of  
Tax-Exempt Revenue Bonds***

*Prepared by: Andrea Gonzalez*

<b>Applicant:</b> Recology, Inc. and/or its affiliates	<b>Amount Requested:</b> \$100,000,000
<b>Project</b>	<b>Application No.:</b> 874
<b>Location:</b> City and County of San Francisco; City of Brisbane (San Mateo County); City of Petaluma and Santa Rosa (Sonoma County)	<b>Final Resolution No.:</b> 18-01-587
	<b>Prior Actions:</b> IR approved 5/20/14, IR amendment 4/18/17

**Summary.** Recology, Inc. and/or its affiliates (the “Company”) requests approval of a Final Resolution for an amount not to exceed \$100,000,000 to finance the construction of building improvements, the acquisition of real property, and the purchase of bins, containers, solid waste disposal equipment, collection and street cleaning vehicles and other related equipment.

**Borrower.** Recology, Inc. (formerly known as NorCal Waste Systems) provides municipal disposal services throughout California. The Company’s various services include waste collection, sorting, transfer, and landfill management. The Company is 100 percent owned by the Recology Employee Stock Ownership Plan (ESOP) and not by any outside investors.

The principal stockholders of the Company are as follows:

Recology Employee Stock Ownership Plan	<u>100%</u>
<b>Total:</b>	<b><u>100%</u></b>

**Legal Status Questionnaire.** Staff has reviewed the Company’s responses to the questions contained in the Legal Status Questionnaire portion of the Application. No information was disclosed in the Legal Status Questionnaire portion of the Application that raise concerns regarding the financial viability or legal integrity of the Company to warrant disapproval of the Company’s financing request.

**TEFRA.** The TEFRA hearing was held on March 15, 2018. There were no comments received in support of or in opposition to this Project.

**Fees.** The Company has paid an application fee of \$5,000 and will pay an administrative fee of \$195,000 at closing.

**SBAF Contribution.** The Company is a large business and will contribute up to \$650,610.82 to the CPCFA Small Business Assistance Fund at closing.

**Prior Financings.** Prior financings are listed below.

Description	Date of Bond Issue	Original Amount	Amount Outstanding as of 7/25/2018
Recology, Inc. Series 2010A	4/20/2010	\$150,495,000	\$150,495,000
<b>TOTALS:</b>		<b><u>\$150,495,000</u></b>	<b><u>\$150,495,000</u></b>

**Project Description.** Recology, Inc. will use bond proceeds to:

- I. Reimburse the Company for the acquisition of approximately 12.03 acres of land across two parcels in Santa Rosa, CA. The parcels were acquired as part of the acquisition of the Ratto Group.
- II. Acquire and install waste disposal and processing equipment, collection vehicles, and street cleaning vehicles.
- III. Expand and modernize the west wing area of the transfer station at 501 Tunnel Avenue, San Francisco. These improvements will improve odor control, traffic flow, and expand the area’s capacity to receive organic waste.
- IV. Make improvements to Recology Sonoma Marin (3400/3417 Standish Avenue Facilities) including the paving of 1.5 acres, replacing paneling on the side of the Material Recovery Facility (MRF) building, and cement casing of columns. Also, removing the old MRF equipment, filling in pits and holes in the yard, and upgrades to the office space and fixtures.

The anticipated project and issuance costs are listed below:

Acquisition of Land	\$17,824,181
Vehicles	42,285,309
Containers	12,828,000
Construction of Building	24,857,510
Acquisition and Installation of New Equipment	<u>2,205,000</u>
<b>Total:</b>	<b><u>\$100,000,000</u></b>

*Note: The project costs reported in the Borrower’s application and shown here in staff’s report are estimated costs. At the time this financing closes, the estimated project costs will be finalized and stated in the Tax Certificate. Variations from the costs shown in the application and in this report may occur prior to the closing due to increased costs of certain components of the project from original estimates, and other reasons. In addition, such costs may vary after closing due also to increased costs, as well as common design and equipment modifications during construction, differences in equipment due to future changes in law or regulation or for other reasons. However, the Borrower confirms, through submission of a signed application and will confirm through covenants and representations in various bond documents, that all assets purchased with bond proceeds will qualify for tax exempt financing, that they will be used to complete the project as described, and that the average life tests required by federal law and described in the Tax Certificate will continue to be met. Tax-exempt financing may be only one source out of multiple sources of financing for a given project.*

**Anticipated Project Timeline.** The project described herein is expected to take at least 18 months to complete and is expected to be placed into service by the end of first quarter of 2020.

**Agenda Item 4.A.**  
**Resolution No. 18-01-587**

**CDLAC Allocation:** On July 18, 2018, the California Debt Limit Allocation Committee (CDLAC) approved \$100,000,000 in tax exempt bond allocation for the Recology, Inc. project (application number 18-005).

**Pollution Control and/or Environmental Benefits.** The Company represents the project will generate the pollution control and environmental benefits described below.

**Energy Efficiency.** The construction and/or expansion of transfer stations and MRFs will improve energy efficiency by reducing the length of the truck routes and the number of trucks on the road due to the centralization of transfer stations and MRFs within the service areas.

**Safety and Compliance.** The Company is in compliance with all state and federal regulations.

**Air Quality.**

- Transfer Stations and MRFs – improving capacity and efficiency in many locations will reduce air pollution by reducing the length of truck routes and the number of trucks on the road due to the centralization of transfer stations within the service areas.
- Leachate and Methane Gas Recovery Systems – The Company’s fleet acquisition program will continue to address the challenge of gas seepage from landfills located within the State of California.
- Solid Waste and recycling collection vehicles – The Company’s fleet acquisition program continues to enhance air quality by emphasizing trucks with cleaner-burning fuels that mitigate harmful emissions.

**Permitting and Environmental Approvals.** The Company acknowledges that facilities included in the project are fully operational and properly permitted and approved to operate as a solid waste facility and do not require a CEQA process.

**Financing Details.** The Company anticipates issuance of negotiated tax-exempt, weekly reset, variable rate bonds with a term not to exceed 30 years for the qualifying portion of the project. The Company plans to secure the bonds with an irrevocable, direct pay Letter of Credit from Wells Fargo Bank that is rated at least “A+/A-1” by Standard & Poor’s Rating Agency or equivalent. The target date for financing is estimated to be September 6, 2018.

**Financing Team.**

**Underwriter:** Merrill Lynch, Pierce, Fenner & Smith Incorporated  
**Bond Counsel:** Orrick, Herrington & Sutcliffe LLP  
**Issuer’s Counsel:** Office of the Attorney General  
**Trustee:** U.S. Bank National Association

**Staff Recommendation.** Staff recommends approval of Final Resolution No. 18-01-587 for an amount not to exceed \$100,000,000 for Recology, Inc. and/or its affiliates.

**FINAL RESOLUTION OF THE  
CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY  
AUTHORIZING THE ISSUANCE OF REVENUE BONDS  
FOR THE SOLID WASTE DISPOSAL/RECYCLING FACILITIES AND EQUIPMENT  
OF RECOLOGY INC. AND/OR ITS AFFILIATES**

**August 21, 2018**

**WHEREAS**, the California Pollution Control Financing Authority (the “Authority”) has received the application of Recology Inc., a California corporation (and together with any successor, assignee or related party, the “Borrower”) for financial assistance to finance or refinance the costs of the acquisition, design, permitting, construction, rehabilitation, renovation, installation, improvement, equipping and development of buildings, real property, collection vehicles, bins, containers, related vehicles, rolling stock, and other solid waste disposal equipment and handling systems and related equipment for the collection, transfer, processing and disposal of municipal solid waste in the State of California which are owned and/or operated by the Borrower or its affiliates all as more particularly described in the Term Sheet attached hereto as Exhibit A and incorporated herein (the “Term Sheet”) (collectively, the “Project”); and

**WHEREAS**, the Borrower has requested the Authority to issue its revenue Bonds from time to time in an amount not to exceed \$100,000,000 to assist in the financing or refinancing of the Project; and

**WHEREAS**, the Authority has applied for a portion of the 2018 State Ceiling on Qualified Private Activity Bonds (“Allocation”) from the California Debt Limit Allocation Committee (“CDLAC”) for bonds issued in tax-exempt mode for the Project as described in CDLAC Application No. 18-005, to finance or refinance certain costs of the Project and to pay certain costs of issuance of the Bonds (defined below), so as to satisfy the requirements of Section 146(e) of the Internal Revenue Code of 1986, with respect to the Bonds; and

**WHEREAS**, the proceeds of the Bonds will be loaned to the Borrower under the hereinafter referred loan agreement with the Authority; and

**WHEREAS**, in order to enhance the marketability of the bonds, the Borrower has arranged for the financial institution named in the Term Sheet to secure the bonds through the issuance of its direct-pay irrevocable letter of credit, thereby guaranteeing their repayment; and

**WHEREAS**, final approval of the terms of the Bonds and certain documents relating to the Bonds is now sought; and

**WHEREAS**, the Borrower has provided or will provide prior to the bond sale documentation to the Authority demonstrating that the Project has complied with Division 13 (commencing with Section 21000) of the Public Resources Code, or is not a project under that division;

**NOW, THEREFORE, BE IT RESOLVED** by the California Pollution Control Financing Authority, as follows:

**Section 1.** The Project constitutes a “project” and the Borrower is a “participating party” within the meaning of the California Pollution Control Financing Authority Act (the “Act”).

**Section 2.** Pursuant to the Act, revenue obligations of the Authority, designated as the “California Pollution Control Financing Authority Solid Waste Disposal Revenue Bonds (Recology Inc. Project), Series 2018A” (the “Bonds”), or such alternate designation as may be approved by the Executive Director of the Authority, in an aggregate principal amount not to exceed \$100,000,000, are hereby authorized to be issued. The Bonds may be issued at one time, or from time to time, in one or more series or sub-series separately or differently identified, and may be issued in a tax-exempt mode, all in accordance with the Indenture (as hereinafter defined) as finally executed. The proceeds of the Bonds shall be used to make a loan to the Borrower to finance or refinance the Project (including without limitation, reimbursing the Borrower for qualifying costs incurred for the Project prior to the issuance of the Bonds) and to pay certain costs of issuance of the Bonds.

**Section 3.** The Treasurer of the State of California (the “Treasurer”) is hereby authorized to sell the Bonds, at one time or from time to time on or before December 31, 2018, by negotiated sale, at such price and at such interest rate or rates as he may determine, such determination to be as set forth in the hereinafter referred to Underwriting Agreement. Delivery of the Bonds at such times to be determined by the Authority pursuant to documents approved in Section 4 hereof, is hereby approved.

**Section 4.** The following documents:

(i) a Loan Agreement relating to the Bonds between the Authority and the Borrower (the “Loan Agreement”);

(ii) an Indenture relating to the Bonds (the “Indenture”) between the Authority and the trustee named in the Term Sheet (the “Trustee”);

(iii) an Underwriting Agreement relating to the Bonds (the “Underwriting Agreement”) among the Authority, the Treasurer of the State of California, as agent for sale, and the underwriter or underwriters named in the Term Sheet (the “Underwriter”), and as approved by the Borrower; and

(iv) a Limited Offering Memorandum relating to the Bonds (in the form of either the “Preliminary Limited Offering Memorandum” or the final “Limited Offering Memorandum”)

are hereby approved in substantially the forms on file with the Authority prior to this meeting, with such insertions, deletions or changes therein in substantial conformance with the Term Sheet as the officer(s) executing and/or delivering the same may require or approve, such approval to be

**Agenda Item 4.A.**  
**Resolution No. 18-01-587**

conclusively evidenced by execution and delivery thereof in the case of Loan Agreement, the Indenture, the Underwriting Agreement, and the Limited Offering Memorandum, and by delivery thereof in the case of the Preliminary Limited Offering Memorandum, and subject to the approval by CDLAC of Allocation for the Project, such approval to be conclusively evidenced by execution and delivery of a resolution by CDLAC (the “CDLAC Resolution”). The Underwriter is hereby authorized to distribute the Preliminary Limited Offering Memorandum for the Bonds to persons who may be interested in the purchase of the Bonds. The Underwriter is hereby directed to deliver a final Limited Offering Memorandum for the Bonds to all actual purchasers of the Bonds.

**Section 5.** Any modification to the Project made prior to the issuance of the Bonds shall be reported to the Executive Director of the Authority, and such modification shall be subject to further approval by the Authority. If such modification is approved by the Authority, the Executive Director of the Authority shall immediately report to the Executive Director of CDLAC. If the Executive Director of CDLAC determines such modification to be material in accordance with CDLAC’s regulations, CDLAC shall reconsider the modification to the Project before the Allocation may be used.

**Section 6.** Any material changes to the bond sale structure prior to the issuance of the Bonds are subject to further approval by the Authority. If material changes are approved by the Authority, the Executive Director of the Authority shall immediately report any material changes to the Executive Director of CDLAC. CDLAC may require approval of the material change by the Committee Chair or the Executive Director of CDLAC before the Allocation may be used.

**Section 7.** The Authority understands and agrees that pursuant to the terms of the Loan Agreement, the obligations of the Borrower may, under some circumstances, be carried out or assumed by a successor or assignee entity, or by an Affiliate of the Borrower. For purposes of this Resolution, an “Affiliate” of the Borrower means any person or entity which meets the definition of “Participating Party” in the Act and controls, is controlled by, or is under common control with, the Borrower, as shown by the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through majority equity ownership, contract or otherwise.

**Section 8.** The dates, maturity dates, interest rate or rates, interest payment dates, denominations, forms, registration privileges, place or places of payment, terms of redemption and other terms of the Bonds shall be as provided in the Indenture, as finally executed.

**Section 9.** The Bonds shall be issued by the manual or facsimile signature of the Chairman or any Deputy to the Chairman of the Authority and the seal of the Authority shall be affixed thereon (or a facsimile reproduced thereon) in the form set forth in and otherwise in accordance with the Indenture. The Bonds, when executed, shall be delivered to the Trustee under the Indenture for authentication by the Trustee. The Trustee is hereby requested and directed to authenticate the Bonds by executing the Trustee’s certificate of authentication appearing thereon. The Trustee is hereby requested and directed to deliver the Bonds, when duly executed and authenticated, to The Depository Trust Company, New York, New York, on behalf of the Underwriter in accordance with written instructions executed on behalf of the Authority, which instructions are hereby approved. Such instructions shall provide for the delivery of the Bonds to

**Agenda Item 4.A.**  
**Resolution No. 18-01-587**

The Depository Trust Company, on behalf of the Underwriter thereof, upon payment of the purchase price thereof.

**Section 10.** The Allocation requested by the Authority, if approved by CDLAC, shall automatically revert to CDLAC unless the Authority has issued Bonds on behalf of the Borrower within ninety (90) days of the transfer of the Allocation. In a case of extreme hardship, the Executive Director of CDLAC may extend this date by up to five (5) business days. In addition, the Executive Director of CDLAC may also grant an additional extension of up to ninety (90) days. This extension will result in a forfeiture of the Project's performance deposit to the extent that the performance deposit has not previously been forfeited. The Authority shall return any unused Allocation to CDLAC.

**Section 11.** Each officer of the Authority, acting alone, is hereby authorized and directed, to do any and all ministerial acts that the officer may deem necessary or advisable in order to consummate the issuance, sale, delivery or remarketing of the Bonds, and otherwise to effectuate the purposes of this Resolution and the Indenture, the Loan Agreement and the Underwriting Agreement and the Limited Offering Memorandum. The Authority hereby approves any and all documents to be delivered in furtherance of the foregoing purposes, including without limitation, any certifications, including, one or more tax certificates.

**Section 12.** The provisions of Resolution No. 18-01-001 entitled "Resolution of the California Pollution Control Financing Authority Delegating Certain Powers and Authorizing Certain Actions Related to Bond Financings" adopted by the Authority on January 23, 2018 (the "Delegation Resolution"), apply to the documents and actions approved in this Resolution, and the provisions of Resolution No. 18-01-001 are incorporated herein by reference. This Section 12 shall be deemed to refer to and incorporate any resolution of a similar nature adopted hereafter by the Authority which replaces or supersedes the Delegation Resolution.

**Section 13.** The provisions of the Initial Resolution No. 14-02, adopted by the Authority on May 20, 2014, and as amended by the Authority on April 18, 2017, apply to the documents and actions approved in this Resolution, and the provisions of such resolution are incorporated herein by reference.

**Section 14.** The Certification of Compliance II or equivalent form must be submitted by the Borrower to the Authority by February 1<sup>st</sup> annually, until the project's Certificate of Completion has been submitted to the Authority, as provided in the Loan Agreement. A copy of the Certification of Compliance II and Certificate of Completion form may be found at this website location: <http://www.treasurer.ca.gov/cdlac>. Failure to demonstrate compliance may result in disqualification from future program participation.

**Section 15.** As required by the CDLAC Resolution, the Loan Agreement, Indenture and Underwriting Agreement expressly provide that CDLAC is a third party beneficiary of the terms and conditions set forth in CDLAC's Resolution. Once the Bonds are issued and delivered, the terms and conditions set forth in CDLAC's Resolution shall be enforceable by CDLAC through an action for specific performance or any other available remedy.

**Agenda Item 4.A.**  
**Resolution No. 18-01-587**

**Section 16.** The Authority hereby approves and ratifies each and every action taken by its officers, agents, members and employees prior to the date hereof in furtherance of the purposes of this Resolution.

**Section 17.** This Resolution shall take effect immediately upon its passage. The adoption by the Authority of this final resolution for the Borrower shall not be referred to in any application before any government agency as evidence of the feasibility, practicality or suitability of the Project or in any application for any required permission or authority to construct or operate the Project.



**EXHIBIT A**

TERM SHEET

Name of Issue	California Pollution Control Financing Authority Solid Waste Disposal Revenue Bonds (Recology Inc. Project) Series 2018A
Amount of Issue	not to exceed \$100,000,000 (tax-exempt)
Issuer	California Pollution Control Financing Authority (the “ <u>Authority</u> ”) Sacramento, California
Borrower	Recology Inc., and/or affiliates
Project	Acquisition, design, permitting, construction, rehabilitation, renovation, installation, improvement, equipping and development of buildings, real property, collection vehicles, bins, containers, related vehicles, rolling stock, and other solid waste disposal equipment and handling systems and related equipment for the collection, transfer, processing and disposal of municipal solid waste in the State of California which are owned and/or operated by the Borrower or its affiliates, to be located in one or more of the various locations as listed in <u>Exhibit B</u>
Underwriter	Merrill Lynch, Pierce, Fenner & Smith Incorporated
Trustee	U.S. Bank National Association
Bond Counsel	Orrick, Herrington & Sutcliffe LLP
Remarketing Agent	Merrill Lynch, Pierce, Fenner & Smith Incorporated
Maximum Bond Term	Not to exceed 30 Years
Type of Sale	Negotiated limited offering to Qualified Institutional Buyers as defined in Rule 144A under the Securities Act of 1933
Denominations	\$100,000 or any integral multiple of \$5,000 in excess thereof
Financing Structure	Variable rate demand bonds. Convertible to other modes,

**Agenda Item 4.A.  
Resolution No. 18-01-587**

	including fixed rate, after initial term
Maximum Interest Rate	12%
Letter of Credit	Wells Fargo Bank, National Association
Other Credit Enhancement	None
Anticipated Bond Rating	S&P: "A+/A-1"
Type of Financing	Solid Waste Disposal Revenue Bonds
Reviewed by	Merrill Lynch, Pierce, Fenner & Smith Incorporated

**EXHIBIT B**

PROJECT LOCATIONS

Recology San Francisco  
501 Tunnel Avenue  
San Francisco, CA 94134  
City and County of San Francisco

Recology Sonoma Marin  
3417 Standish Avenue  
Santa Rosa, CA 95407  
Sonoma County

Golden Gate Disposal & Recycling  
Company  
900 7th Street  
San Francisco, CA 94107  
City and County of San Francisco

Recology Sonoma Marin  
3284 Dutton Avenue  
Santa Rosa, CA 95407  
Sonoma County

Sunset Scavenger Company  
250 Executive Park Blvd, #2100  
San Francisco, CA 94134  
City and County of San Francisco

Recology Sonoma Marin  
2543 Petaluma Blvd South  
Petaluma, CA 95407  
Sonoma County

Sunset Scavenger Company  
505 Tunnel Avenue  
Brisbane, CA 94005  
San Mateo County

Recology Sonoma Marin  
1309 Dynamic Street  
Petaluma, CA 94954  
Sonoma County

Recology Sonoma Marin  
3400 Standish Avenue  
Santa Rosa, CA 95407  
Sonoma County