S&P Global Ratings

RatingsDirect®

Summary:

Monterey Regional Waste Management Authority, California Monterey Regional Waste Management District; Solid Waste/Resource Recovery

Primary Credit Analyst:
Edward R McGlade, New York + 1 (212) 438 2061; edward.mcglade@spglobal.com

Secondary Contact:
Alexandra Rozgonyi, Centennial + 1 (303) 721 4824; alexandra.rozgonyi@spglobal.com

Table Of Contents

Summary:

Monterey Regional Waste Management Authority, California Monterey Regional Waste Management District; Solid Waste/Resource Recovery

Credit Profile		
US$24.915 mil integrated waste mgmt sys rev rfdg bnds (taxable-green bnds) ser 2021 due 04/01/2034		
Long Term Rating	AA+/Stable	New
Monterey Regl Waste Mgmt Auth, California		
Monterey Regl Waste Mgmt Dist, California		
Monterey Regl Waste Mgmt Auth		
Long Term Rating	AA+/Stable	Upgraded
Monterey Regl Waste Mgmt Auth SLDWSTRES		
Long Term Rating	AA+/Stable	Upgraded
Monterey Regl Waste Mgmt Auth SLDWSTRES		
Long Term Rating	AA+/Stable	Upgraded
Monterey Regl Waste Mgmt Auth (Monterey Regional Waste Management District)		
Long Term Rating	AA+/Stable	Upgraded

Rating Action

S&P Global Ratings raised its long-term rating two notches to 'AA+' from 'AA-' on the Monterey Regional Waste Management Authority (MRWMA), Calif.'s outstanding integrated waste management system revenue bonds, issued for the Monterey Regional Waste Management District. At the same time, S&P Global Ratings assigned its 'AA+' rating to the series 2021 integrated waste management system revenue bonds. The outlook is stable.

We view bond provisions as credit neutral. The bonds are backed by installment payments, which are secured by the net revenues of the district. A rate covenant requires the district to generate at least 1.25x debt service coverage (DSC), with use of a rate stabilization fund allowed to help meet the requirement. Additional parity debt can be issued if projected net revenues provide at least 1.25x maximum annual debt service (MADS) coverage. As of Dec. 7, 2021, there were $49.6 million of parity bonds outstanding. The series 2021 bonds will be used to refund the series 2015A and 2015B bonds for savings. Similar to the 2018 bonds, the 2021 bonds will not have a debt service reserve fund (DSRF). Given the system's good liquidity, we do not currently view the lack of a DSRF as a credit weakness.

Credit overview

The upgrade reflects the system's conservative management policies and procedures, the very strong nature of the regional economic base--which is highlighted by above-average wealth and income levels and low unemployment, and the strong economic viability of the integrated solid waste system. The solid waste system is regional, not only collecting "district waste," which accounts for 40% of waste flows, but also collecting "regional waste" mainly from Santa Cruz County. MRWMA's current posted tip fee is $65/ton, which compares favorably with the other two local landfills, Johnson Canyon's $76.79 and Buena Vista, in Santa Cruz County, at $89.29. Regionally, the system is even more economical as the regional waste fee (which includes transportation costs) is more favorable at about $78.78 per ton than almost all of the competitive facilities. It is this economic viability that provides security for the rating, along with these other factors:

- Service area participation in the strong Salinas metropolitan area;
- Affordable rates and charges;
- Good operational management assessment;
- Extremely strong all-in coverage metrics exceeding 1.61x over the past three years, which we believe may continue to fluctuate, while still remaining extremely strong;
- Good liquidity position with about $28.6 million of cash and investments as of June 30, 2020, or about 330 days' cash on hand; and
- Good financial management assessment.

These factors are partially mitigated by the overly regulated nature of the solid waste business in California, which precludes a higher rating at this time. In addition, the system's debt burden is above average.

The stable outlook reflects our anticipation that DSC will remain strong and liquidity will be maintained at strong levels. Fluctuations in the prices for recyclable material and the volume of regional waste handled by the district could affect financial performance in the future. Management's ability to adjust fees to ensure financial viability while balancing the system's economic competitiveness will also provide rating stability.

Environmental, social, and governance

Overall, we believe that management has mitigated most of the system's environmental, social, and governance (ESG)-related risk by adopting, adhering to, and adjusting its operating and financial policies and procedures. Therefore, we see most of the credit's ESG risk factors to be on par with those of other highly rated solid waste utilities. However, for now, increased pressures on the service area economy due to higher public health and safety risks related to COVID-19 will directly increase the system's overall social risk factors.

Stable Outlook

Upside scenario

We do not anticipate raising the rating for the next couple of years based on the volatile nature of the recycling markets and the reliance on 60% of the revenues to come from regional providers under contracts which can expire before bonds mature.

Downside scenario

If coverage or liquidity were to decline to well below projections over the next two years, we could lower the rating. Additionally, should something occur which makes the system no longer economically viable option to the regional waste customers the rating could be lowered.

Credit Opinion

The district provides solid waste recycling, processing, and disposal services under contractual agreement to nine member agencies serving the cities of Carmel-by-the-Sea (4.7%), Del Rey Oaks (0.6%), Marina (9.0%), Monterey (14.4%), Pacific Grove (6.0%), Pebble Beach (7.0%), Sand City (0.8%), and Seaside (11.9%) and unincorporated areas of western Monterey County (45.5%). Each agency member is required to direct collection franchisees to deliver waste to the district's landfill. The district also receives a large portion of its waste from outside its boundaries. The member agencies' service area covers 853 square miles, and the population served totals about 205,500. The local economy for the coastal communities served is primarily tourism based, but agriculture also plays a major role in the county. We view the service area's economy to be strong given the county's median household effective buying income (MHHEBI), which was 118% of the national average for 2021.

Garbage rates for a typical residential customer in the district's service area for weekly pickup and disposal of a 35-gallon garbage bin, 64-gallon recycling bin, and 64-gallon yard waste bin are $21.85 per month, using the city of Monterey as an example. We view these rates to be generally affordable at about 0.4% of MHHEBI.

The district does not have direct competitors in the service area, as member jurisdictions must direct franchise haulers to use the district's facilities for disposal. However, members contribute 40% of overall tonnage. Regional waste sources include the cities of Capitola and Watsonville and Santa Cruz County. These communities. along with a contract with Green Waste-Zanker, whose waste primarily comes from Santa Clara County. account for about 60% of the district waste flows.

The district believes its facilities are economically competitive given its tipping fees and location relative to the other landfills. Management indicates that there are currently 15 landfills in the region, which could be used for the disposal of self-hauled waste and regional waste. The current published gate fees at the Johnson Canyon and the Buena Vista landfills, the two landfills closest to the system, are $76.79 per ton and $89.29 per ton, respectively. The district's basic tipping fee for solid waste, effective as of July 1, 2021, is currently $65.00 per ton.

In our view, the system's operational and organizational goals are generally well aligned, even if some challenges exist. Management has identified the current capacity is enough to meet demand over the long term. The district owns one landfill near Marina, which is the disposal site for all of the district's non-recoverable waste. The district's resource recovery facilities include a material recovery facility, a landfill gas-to-energy facility, a facility that converts waste to biogas, a franchise hauler truck parking and maintenance facility, and a reuse store. While waste disposal tonnage has doubled in the most recent five years from a rate of approximately 300,000 tons per year in 2013 to approximately 773,202 tons estimated for 2021, the landfill's useful life remains estimated to be more than 100 years, based, in part, on a forecast of increased recycling and decreased disposal volumes.

The district completed upgrades to its material recovery facility in March 2018 to meet certain state mandates and goals for processing and for diverting organics from disposal in landfills, which included upgrades for construction and demolition (C&D) waste delivered by self-haul customers, and the installation of new capacity for processing both commercial mixed waste and single-stream recyclables collected.

The district's four landfill gas-to-energy generators provide approximately 5 megawatts of clean alternative power, meeting all of the district's own power needs and electrical power equivalent to the needs for 4,000 residences. The district sells excess power generated from this project under an agreement with Monterey One Water (M1W) for its advanced water purification facility (adjacent to the district's landfill.

The district has had strong stable financial performance over the past three years. In our view, future financial performance will be affected by various factors, including recyclable material prices and the volume of waste delivered from local and regional sources.

Operating revenue totaled $42.4 million in fiscal 2021 (unaudited), up 60% over 2017. Operating expenses (excluding depreciation and a one-time pension liability accrual) were up 42% over the same period, totaling $34.1 million. Net revenue (including net operating income and non-operating revenue) totaled $12.7 million in fiscal 2021, resulting in DSC of 3.05x, compared to 2.85x and 1.95x in fiscal years 2019 and 2020, respectively.

The district is forecasting a continuation of very strong coverage exceeding 2.2x through 2026. This partly reflects planned disposal fee rate increases (which affects both member agency and regional waste revenue), higher power sales (under the agreement with M1W) as well as flat recyclable material sales beginning in fiscal 2021. In particular, material sales, which have risen from $2.0 million in fiscal 2018 to $11.5 million in fiscal 2021, are expected to only grow to $12.4 million by fiscal 2026; this reflects the currently strong recyclable market remaining that way for the next five years.

The district's liquidity position has been historically good, in our view. As of June 30, 2020, unrestricted cash and investments totaled $28.6 million, representing about 330 days' of operating expenses on hand. Based on management's forecasts, unrestricted cash is expected to decline over time to fund a significant portion of the capital improvement plan (CIP).

Planned capital expenditures through fiscal 2026 total approximately $53.6 million. Of this amount, approximately $30 million is expected to be financed from annual free cash from operations. We understand there are no additional debt plans after this issuance.

In our view, financial practices and policies exist in most areas. We understand a five-year financial outlook and CIP are prepared and reviewed annually during the budget process. In addition, management has a policy of maintaining a 20% cash operating expense reserve. Legal provisions and state laws are the guiding influences on management's use of, and attitudes toward, debt. Furthermore, management produces audited financial statements that comply with Generally Accepted Accounting Practices (GAAP).

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020