

**Montgomery-Otsego-Schoharie  
Solid Waste Management Authority**

**Plain Language Explanation**

**of**

**Reserve Funds**

**December 2008**

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## **Introduction**

Like any borrower, public or private, big or small, the assets and income (revenue) of a borrower, like MOSA, are legally subject to the privileged claims of the lender (bondholders). Often this is either by mortgaging the assets and/or requiring additional financial commitments from a borrower's savings to guarantee the lender the good possibility of future payback of principal and interest.

MOSA is a public authority set up by the State of New York to construct and operate waste management facilities by borrowing through bonds (binding agreements to repay). The payback of bond principal and interest is financed by the fees, charges, rentals and other payments received as the result of the operation of its facilities.

The financial commitments of MOSA and the Participating Counties to the bondholders (lenders) involves privileged claims on MOSA's physical assets, the setting aside of reserves (savings) for certain purposes along with legally binding agreements between the principal parties (Participating Counties and MOSA) to give confidence to the bond market that MOSA will and can payback interest and principal over the long term from the revenues associated with the effective use of its facilities and services.

The establishment of reserves in several funds serves the purposes of:

- (1) providing bond holder confidence in future payments,
- (2) supporting operations of the Authority under volatile and uncertain market conditions, and
- (3) providing for maintenance, replacement, and renewal of Authority equipment and facilities.

Authorizations for funds and control of funds may vary.

Operational control of various reserve funds is with either

- (1) the Bond Trustee, or
- (2) the MOSA Board.

MOSA's reserve funds are authorized/required under two conditions:

**First**, under the Public Authorities Law:

§ 2041-d. paragraph 15 requires MOSA payment of “the principal and interest on the bonds of the authority, together with the maintenance of proper reserves therefore”; “paying ... the expenses of operating and maintaining the properties of the authority, together with proper reserves for debt service, depreciation, maintenance and contingencies and all other obligations and indebtedness of the authority”.

**Second**, under a *Trust Indenture* (a formal agreement between an issuer of bonds and the bondholders/purchaser of the bonds) containing provisions for the protection of bondholders.

Requirements for MOSA reserves under the Trust Indenture are of two kinds:

- a. Specific requirements for defining the purposes, operations and calculations of the amounts of reserve funds MOSA must maintain.
- b. General requirements allowing some MOSA Board Resolution determination, after consultation with and recommendations from Management and consultants, of the purposes, operations and amounts of some reserves.

There are links between some of the funds by rules of the *Trust Indenture* or Board Resolutions. After year-end review of fund balances, transfers are made to assure the proper funding of reserves.

Reserve funds are reviewed monthly by the Governing Board and are audited annually by independent external auditors.

The following are MOSA reserve funds and their characteristics:

## **Debt Service and Sinking Fund**

*Authorized and required by: the Public Authorities Law and Section 5.07 of the Trust Indenture*

*Purpose: Payment of Principal and Interest on Bonds*

*Controlling agent: Trustee of the Bondholders*

*Amount in Funds (2008): varies between \$0 - ~\$1,872,000*

*Regulated by Trust Indenture as follows:*

Monthly payments from MOSA revenues are made to the Bond Trustee to be placed into this fund so that after the fund has accumulated for six months, the required semiannual payments of principal and interest may be made to the bondholders. The fund fluctuates based upon monthly contributions and semiannual payments.

## **Debt Service Reserve**

*Authorized and required by: the Public Authorities Law and Section 5.08 of the Trust Indenture*

*Purpose:* Reserve funds for the payment of Principal and Interest on Bonds should a MOSA revenue shortfall compromise possible payment of operating expenses and debt obligations at the same time.

*Controlling agent:* Trustee of the Bondholders

*Amount in Fund:* For Series 1994A/ 2005D Bonds - \$150,067.50; For 2003 Series - \$1,823,500.00

*Regulated by Trust Indenture as follows:*

Amounts are to be reserved for each series of bonds. Interest from these invested reserve funds is swept into the Debt Service and Sinking Fund by the Bond Trustee to help pay current year principal and interest.

## **Bond Redemption and Improvement Fund**

*Authorized and required by: the Public Authorities Law and Section 5.10 of the Trust Indenture*

*Purpose:* (a) to pay the cost of Authority Facilities; (b) to meet unanticipated Operating Expenses or to restore an operating reserve of the Authority; (c) to pay the cost of or repay any loans for renewals / replacements / extraordinary maintenance of Authority Facilities; (e) to pay other debts of the Authority incurred in connection with the Processing of System Solid Waste; (f) to purchase, defease or otherwise redeem any Bonds of any series at a price.

*Controlling agent:* Trustee of the Bondholders

*Amount in Fund (as of 12/31/08):* 5% of operating expenses. - ~\$493,000; proceeds - ~\$1,267,000

*Regulated by Trust Indenture as follows:*

This fund includes 5% of Authority operating expenses, beyond the amounts for debt service and depreciation, along with **proceeds** from the sale, condemnation, insurance recovery or other reimbursement, for Authority equipment or facilities purchased or built with bond funds.

## **Operating Reserve Fund**

*Authorized by: the Public Authorities Law; the Trust Indenture; and Resolution 51 of 2002*

*Purpose:* to address the financial uncertainties from decisions on tipping fee subsidies, flow control, districting, or other alternatives, made by one or more of the Counties that would affect the flow of waste to the Authority and thus the revenues it could generate from that waste flow, in any one year.

*Controlling agent:* Authority Board

*Amount in Fund (as of 12/31/08):* ~\$2,632,797

*Regulated as follows:*

Calculated essentially according to the size of the operating budget minus debt service, variable costs (to include transportation and disposal costs) and amounts in the Bond Redemption and Improvement Fund.

## **Equipment Replacement Fund**

*Authorized and required by: the Public Authorities Law; the Trust Indenture Section 5.14 and Resolution 90 of 2000*

*Purpose:* the replacement of operating equipment at the end of its useful life. Equipment such as yard and road tractors, leachate and equipment transport trailers, roll-off boxes, loaders, mowers, leachate pumps and tanks, vehicles, tip floor grapples, computers and office equipment are purchased through this fund.

*Controlling agent:* Authority Board

*Amount in Fund (as of 12/31/08):* ~\$899,909

*Regulated as follows:*

Contributions are made to the fund for each piece of equipment during each year of its useful life together with earnings. Contributions are used to replace the equipment at the end of its useful period. Either IRS schedules for useful life or MOSA experience are used for calculation of replacement schedules. Actual equipment replacement sometimes takes place earlier than scheduled or later due to equipment failure or endurance.

## **Buildings and Grounds Fund**

*Authorized and required by: the Public Authorities Law; the Trust Indenture Section 5.14 and Resolution 91 of 2000*

*Purpose:* provide monies for major buildings and grounds projects such as road and trailer area repaving, building repairs and improvements, tip floor repairs, etc..

*Controlling agent:* Authority Board

*Amount in Fund (as of 12/31/08):* ~ \$536,905

*Regulated as follows:*

Contributions are made to the fund for each project during each year of its useful life along with earnings. The funds are used for major repairs required at the end of the useful life of the identified improvements. Actual repairs sometimes take place earlier than scheduled or later due to actual need.

## **Rate Stabilization Fund**

*Authorized and/or required by: the Public Authorities Law; the Trust Indenture; and Resolution 97 of 1990*

*Purpose:* a general reserve to receive end of year transfers from revenues not spent on operations and freed from the Bond Indenture and against which deficits, unbudgeted expenses, major projects, remedial action on facilities, and future liabilities like funding mandated landfill post closure monitoring and maintenance. Current post closure obligations between 2015 and 2030 are estimated by outside engineers to total ~\$2,300,000 and are updated annually.

*Controlling agent:* Authority Board

*Amount in Fund (as of 12/31/08):* ~\$3,086,800

*Regulated as follows:*

End of the year transfers are made to and from the Rate Stabilization Fund, according to the rules of the Trust Indenture and Resolutions of the Governing Board, to make sure all other Indenture and Authority Funds are made whole. The Authority Board then has discretion over this fund.