



# FINANCIAL ASSURANCES BULLETIN

## LOCAL GOVERNMENT FINANCIAL TEST AND LOCAL GOVERNMENT GUARANTEE

Publication No. 242-97-003

Bulletin No. 4 June 1997

### To All Operators of Solid Waste Landfills:

This is to clarify the U.S. Environmental Protection Agency's (EPA) rule finalizing financial assurance mechanisms for local government owners/operators (operators) of municipal solid waste landfills, Local Government Financial Test (test) and Local Government Guarantee. The final rule is set forth in the November 27, 1996 Federal Register, Vol. 61, No. 230. The effective date for the EPA financial assurance requirements is April 9, 1997 for most landfills.\* Small, dry, and remote landfills have until October 9, 1997 to comply. The test allows local governments to meet their financial assurance obligations by demonstrating their financial strength. A local government interested in providing a Local Government Guarantee must pass the test.

This bulletin clarifies California Integrated Waste Management Board's (IWMB) implementation of the two new mechanisms available to local government operators of landfills. IWMB staff is developing new State regulations to add these mechanisms to current State financial assurance regulations. A 45-day comment period will follow the public notice of the proposed regulations published by the California Office of Administrative Law.

IWMB's proposed test can be used to demonstrate financial responsibility for postclosure maintenance costs and/or corrective action costs. Local governments are reminded of their ongoing responsibility to pay for postclosure maintenance costs and corrective action costs, and that this obligation does not change due to demonstration of financial assurance for these costs by a "passing" local government financial test. The regulations currently proposed do not allow the use of the test to assure closure costs.

In order to pass either Alternative 1 or Alternative 2, the test must be based on financial statements prepared in conformity with generally accepted accounting principles (GAAP) for governments and audited by an independent certified public accountant. The local government is limited to assuring costs equal to 43 percent or less of total annual revenue. The local government is required to inform the public, placing "on record" the local government's commitment of future local government funds, and report to IWMB annually on whether it continues to meet the test. A local government is not eligible to use the LGFT if it:

- 1) Is currently in default on any outstanding general obligation bond, or

\* All operators of solid waste landfills are reminded that effective April 9, 1997 every financial assurance mechanism for postclosure maintenance costs is required to demonstrate coverage in the amount of thirty years of postclosure maintenance costs.

- 2) Has any outstanding general obligation bonds rated lower than Baa as issued by Moody's or BBB as issued by Standard and Poor's, or
- 3) Has operated at a deficit equal to 5 percent or more of total annual revenue in each of the past two fiscal years, or
- 4) Has received an adverse opinion, disclaimer of opinion, or other qualified opinion from the independent certified public accountant auditing its financial statement.

**Summary of Alternative 1**

- 1) 43 Percent Threshold Limit on Assured Costs: Is sum of assured costs equal to 43 percent or less of total annual revenue?
- 2) Liquidity Ratio: Is the ratio of cash plus marketable securities to total expenditures greater than or equal to 0.05?
- 3) Debt Service Ratio: Is the ratio of annual debt service to total expenditures less than or equal to 0.20?

**Summary of Alternative 2**

- 1) 43 Percent Threshold Limit on Assured Costs: Is sum of assured costs equal to 43 percent or less of total annual revenue?
- 2) Local Government's Bond Certification: Outstanding, rated, general obligation bonds are not secured by insurance, a letter of credit, or other collateral or guarantee, and
- 3) Current Investment Grade Rating by Moody's: Aaa, Aa, A or Baa on all such general obligation bonds, or
- 4) Current Investment Grade Rating by Standard and Poor's: AAA AA, A or BBB on all such general obligation bonds.

Within 90 days after the close of each financial reporting year, the local government must submit to the IWMB a chief financial officer letter, Alternative 1 or 2 of the financial test, and other required documentation. If at any time the IWMB finds that the local government no longer meets the financial test requirements specified in the IWMB regulations, the local government will be required to obtain alternate acceptable coverage within 60 days after receiving notification of the finding.