

May 8, 2014

Mr. Patrick Matthews
General Manager
Salinas Valley Solid Waste Authority
128 Sun Street, Suite 101
Salinas, CA 93901

Re: Equipment Lease Structure for Acquisition of Landfill Operations Equipment

Dear Mr. Matthews,

In connection with the proposed Equipment Lease-Purchase Agreement between Salinas Valley Solid Waste Authority (“Authority”) and Capital One Public Funding (“Capital One”), we have been investigating an alternative legal structure for your financing which involves using a “standard equipment lease” structure. Under this alternative, the Authority would make annual lease payments, but those payments would not be structured with either principal or interest components typical under a traditional financing lease. In addition, pursuant to IRS guidelines, the financed equipment would likely have to be purchased at some residual value that is either tied to a fair market or non-depreciated value at the end of the lease term.

Based on discussions with Capital One and other similar lenders, changing the structure into a standard equipment lease would pose several difficulties. There are relatively few, if any, equipment lease lenders which would be interested providing funding under this alternative structure. Furthermore, the “effective” interest rate associated with this type of lease structure would increase the financing costs to the Authority above the amount currently quoted by Capital One under the equipment lease-purchase structure. The increase in cost would be based on the atypical nature of the lease and the likely change in the average life of the financing.

Let us know if you have any questions.

Sincerely,



John Kim
Managing Director



Lawrence Pier
Associate