

T. W. C.

Memorandum Date: May 3, 2009
BCC Agenda Date: May 5, 2009

TO: Board of County Commissioners
DEPARTMENT: Public Works
PRESENTED BY: Tanya Heaton, Administrative Services Manager
AGENDA ITEM TITLE: Report Back – Solid Waste Disposal Fund Financial Plan

I. Issue

Financial Forecast for Solid Waste Disposal Fund – five years beginning with FY 09-10 Proposed Budget through FY 14-15.

II. AGENDA ITEM SUMMARY

This is an update on and discussion of the Solid Waste Disposal Fund Financial Plan including a financial summary and five year projection.

III. BACKGROUND/IMPLICATIONS OF ACTION

A. Board Action and Other History

The Waste Management Division has been funded solely by revenues generated by fees since 1980. In 1999 the Board of County Commissioners established the System Benefit Fee (SBF) in Lane Code 9.040 to cover the cost of programs and services that provide community-wide benefits and are available to all county residents, such as the user convenience/transfer station system, waste reduction and recycling services, and special and household hazardous waste services.

The Solid Waste Management Plan was adopted by Ordinance No.10-02 by the Board of County Commissioner in August 2002.

Effective September 1, 2007, the total per ton rate was increased from \$45.00 to \$65.00. The current SBF rate is \$26.45; the disposal fee is \$35.05, other fee (nuisance site clean up and waste diversion opportunities) is \$3.50 for a total per ton rate of \$65.00 (LM 60.875).

The “Other fees” (\$3.50) are collected to be used for solid waste regulation and management purposes:

** Nuisance site cleanup. A portion of this fee collected shall be used to fund the

clean up of nuisance properties identified by Lane County as directed by the Board. It is expected that the majority of these sites will be identified through the Land Management Division Compliance program.

** Waste diversion opportunities. A portion of this fee collected will be used for projects approved by the Board that are designed to divert or prevent waste material from entering the landfill, including but not limited to, research and development.

** On a monthly basis, sixty percent (60%) of the fees collected will be accumulated and maintained for nuisance site cleanup and forty percent (40%) for waste diversion opportunities. On or before July 1, 2011, the Board will review collection and utilization of the funds authorized by LM 60.875(3) and may adjust those fees at that time. The Board could reduce or increase the fees and could transfer all or any portion of, the remaining funds in the General Solid Waste Fund. The Board could also choose to terminate the fees authorized by LM 60.875(3) and incorporate those fees and any future revenue contributions into the System Benefit Fee and Disposal Fee structure.

B. Policy Issues

The Waste Management Division (WMD) provides services to the community with an integrated solid waste management system through waste preventions, reuse, and recycling, waste diversion and garbage disposal. These services are highly influenced by the local economy. WMD provides a countywide waste management system that is environmentally sound and socially acceptable while balancing convenience with economics.

The division generates revenue through fees to provide local long-term solid waste disposal capacity and maintain and develop sound funding to respond to regulations and changing waste management technologies. The current fee has three components totaling \$65 per ton – the disposal fee, \$35.05; system benefit fee, \$26.45; and the other fee, \$3.50. The “other” fee was established in September 2007 to provide resources for nuisance site clean up and waste diversion opportunities.

The Public Works Department has been asked if all or part of the fee can be used to fund activities in other Public Works divisions.

C. Board Goals

The Board is being asked to review the Solid Waste Disposal Fund Financial Forecast in conjunction with review of the use of the resources within the fund. Three goals from the Strategic Plan, page 13, are relevant to this review:

- *Maintain a healthy environment with regard to air quality, water quality, waste management, land use and parks.*
- *Protect the public's assets by maintaining, replacing or upgrading the County's investments in systems and capital infrastructure.*
- *Provide efficient and effective financial and administrative support and systems to direct-service departments.*

D. Financial and/or Resource Considerations

No action is requested from the Board of Commissioners at this time. This report is an information item only.

E. Analysis

Public Works Solid Waste Disposal Fund is three quarters into an economic downturn. Local businesses and manufacturing plants have closed and construction and demolition projects are at an all time low. Due to these economic issues the amount of waste generated has decreased. The Short Mountain Landfill received 7% less garbage than it did in 2007. In the first quarter of 2009, the amount of garbage is down 17% from the same period in 2008. Recycling also dropped 5% from 2007 to 2008. Costs have increased in handling recycling materials and revenues have decreased from the sales of recyclables.

A significant organizational change in FY 08-09 included the utilization of the County-wide MAXIMUS Indirect Allocation methodology for Public Works Administration and facility costs. This change in methodology increased the allocation of administration costs from the Road fund to all other funds in the Public Works department and resulted in a savings to the Road Fund. The offset however, was significant increases in departmental overhead costs to some non-road fund divisions such as Parks, and Land Management. Waste Management Division will be reimbursing the Road Fund \$775,909 in FY 09-10, an increase of over \$600,000 since FY 07-08.

Budget FY 09-10

The FY 09-10 budget is the base for the five year forecast. FY 09-10 Public Works budgets were developed with Public Works department budget direction guidelines. The department-wide budget goals and objectives are:

- Budget Goals
- ❖ Stabilize Services Provided
 - ❖ Minimize Reductions

- ❖ Build Reserves

Budget Objectives

- ❖ Provide current service level to citizens and customers
- ❖ Zero Growth Expenses
- ❖ Increase Operational Reserves to 15-20%
- ❖ Maintain lapse rate of 2-4%

A significant decrease in budgeted fees was completed through the supplemental budget process in FY 08-09 for the Solid Waste Disposal Fund. The Waste Management Proposed Budget for FY 09-10 has decreases in operational revenues, fund balance and reserves.

Forecast Assumptions

Personnel Costs include BCC approved union COLA's (Cost of Living Adjustment) for FY 09-10 and beyond depending on the bargaining units contract period. The Solid Waste Disposal Fund has 80 FTE budgeted for FY 09-10. Three unions represent over 96% of these employees – Admin-Pro 10.0 FTE (12.5%); AFSCME 30.42 FTE (38.0%) and 626 36.89 FTE (46.1%). Personnel lapse rate is factored at 2%. This lapse rate includes turnover and adjustments for seasonal fluctuations.

Health Benefits are forecasted to rise at approximately 12% in FY 10-11 and 11-12 for health, dental and vision with the balance of the benefits remaining flat. FY 12-13 is projected at 11% with the years following at 10%. The last five years health benefit cost increases have ranged from 4.21% to 25.71% with an average of 13.35%. The computation for increases include internal and external factors such as the amount of use, the local medical market, the cost of prescriptions and the rate of critical instances. The lapse rate for health benefits is 2% to match Personnel Costs.

Materials & Services Costs have seen increases for each of the last six years. The change from year to year ranges from 4.0% in FY 02-03 to 22.96% in FY 04-05. The last two years showed increases of 3.4% and 12.6%, respectively. The forecast shows an increase in the FY 09-10 budget from FY 08-09 of \$653,869. The division does not reach the department's budget direction for zero growth when combining M&S growth with personnel services growth due to increase in the costs of processing recycled materials and indirect allocations. A lapse of 3% is currently projected for FY 09-10.

The Solid Waste Disposal Fund pays over \$1.5 million to the General Fund, Information Services Fund and Road Fund for indirect allocations and information systems services. The three accounts in this category are for charges assessed to the Division based on expenses from County-wide central support and administrative departments, information services and Public Works Administration

services. The total for FY 09-10 is \$1,551,977 for indirect allocations, an increase of \$428,413 (38.1%) over FY 08-09.

Reserves

Lane Manual Chapter 4 – Management Policies; 4.005 Financial and Budget Management includes the following policy regarding reserves:

4.010 (3) Reserve Policies:

Goal: To maintain adequate reserves to provide a cushion against unforeseen events and economic downturns, thus providing for stability in planning and service delivery, and to maintain a reserve level sufficient to maintain a favorable bond rating.

(a) The County will establish reserve funds that can be used to reduce the impact of revenue fluctuations and provide for more stable delivery of services to Lane County citizens.

(b) The County will strive to maintain a minimum of a 5% Prudent Person Reserve for all funds except the General Fund. The reserve in each fund will be reviewed annually during the budget process by the designated fund manager and associated committee.

(c) The County will establish operational reserves within the General Fund and strive to maintain a reserve balance of at least 10% of General Fund operating revenues. Refer to General Fund Reserve Policy at LM 4.011 below.

(d) The County will establish and budget adequate contingency reserves for all operating funds to meet unanticipated requirements during the budget year.

Operational Reserves are calculated as a percentage of Operational Revenue. Fund Carryover/Balance is deducted from Total Revenue to calculate the amount of revenue earned or budgeted to be earned in a given fiscal year. The management policy requiring a minimum reserve of 5% essentially requires a reserve that provides operational capital for 18.25 days of operations. Business processes in Lane County do not enable a department to reduce or eliminate a service quick enough to stay within a 5% reserve in the event of a major issue or change such as the September 2008 economic crash or a storm event similar to a hurricane or earthquake. An organization as large as the Public Works Department needs a little more time to react to major influences. Therefore the department has reviewed reserve levels for each fund.

The minimum Operational (Prudent Person) Reserve is 10% for Public Works funds. The goal for FY 09-10 is 15-20%. Reserves are prudent to build to accommodate fluctuations in revenue and the economy. Many Public Works funds have expenses and revenues on different payment streams, with higher expenses occurring at different times than revenues. In addition, some revenues are received annually or quarterly. Reserves provide cash flow for seasonal operations. A 10% reserve provides 36.5 days of cash flow. The goal for the Solid Waste Disposal Fund Prudent Person Reserve is 20%. There is also an

operational contingency due to the economical factors that directly influence activity and to minimize the risk of an emergency at the landfill.

Reserves are also held in the Short Mountain cell development, closure and post closure programs. These reserves are regulated through DEQ and the Solid Waste Management Plan adopted in 2002. Financial assurance documents are required by DEQ. A certified engineer calculates the financial requirements for closure and post-closure costs based on the number of acres involved in each cell at Short Mountain. The resources (reserves) in the closure and post-closure programs are required to match those calculations.

Variables

Revenue in the Solid Waste Disposal Fund comes from tipping fees at the rate of \$65 per ton. The local economy has a significant impact on the amount of waste that is disposed through the Lane County Solid Waste Disposal system. Recent closures of several businesses in the manufacturing industry along with the construction industry has decreased the commercial waste stream. Residential waste collection and disposal are also decreased as people buy less and reuse more.

Personnel costs include union settlements, estimated salary/wage adjustments and merit increase estimates along with health benefit increases described in the assumptions section. These items vary annually based on union contracts.

Materials & Services in the Solid Waste Disposal Fund have a few higher than average cost items such as materials recycling (\$725,000), indirect allocations (\$1.5 million), and equipment rental, repairs & maintenance (\$2.6 million).

Transfers from operational revenue to the development, closure and post closure programs are done by schedule to meet the development plans and provide financial assurance to DEQ.

F. Alternatives/Options

The current Solid Waste Disposal Fund Financial Forecast reflects declining operational revenues and increasing expenses. The FY 08-09 budget was balanced in the supplemental budget process with a reduction in fees and an increase in fund balance from the FY 07-08 lapse rate.

IV. TIMING/IMPLEMENTATION

At this time the Solid Waste Disposal Fund is balanced for FY 09-10. No changes

are necessary to balance the budget for the upcoming fiscal year.

V. RECOMMENDATION

Stay the course with the FY 09-10 proposed budget and provide direction to the department to review and analyze the fee structure and prepare options for organizational and/or funding changes in the future.

The Public Works department will have approximately 6 months to prepare recommendations. This will allow the director and management team time to review and analyze goals and objectives and update strategies to bring back to the County Administrator and Board of Commissioners.

VI. FOLLOW-UP

Report back to the County Administrator and Board of Commissioners in six months.

VII. ATTACHMENTS

None.