StopWaste
at home • at work • at school

DATE: March 9, 2017

TO: Programs and Administration Committee
Planning and Organization Committee/Recycling Board

FROM: Pat Cabrera, Administrative Services Director

SUBJECT: Updated Multi Year Fiscal Forecast

SUMMARY

At the February 22, 2016 Waste Management Authority meeting, staff presented multi-year fiscal forecast scenarios predicated on revised revenue assumptions. Staff committed to presenting a revised multi-year forecast on an annual basis, in preparation of budget development. At both the March 9, 2017 Programs and Administration Committee and the Planning and Organization Committee/Recycling Board meetings, staff will present a revised multi-year forecast based on new core revenue estimates and a reduced core expenditure plan.

DISCUSSION

15/16 projection to 15/16 actuals - The revised projection shows a comparison between our FY15/16 projected core, revenues, projections and fund balance and our actual financials for the year. The following is a more detailed breakdown of those figures.

Category	FY 15/16 Actuals	FY 15/16 Budget (Mid-Year)	Difference
Core expenditures	**$10,502,000**	**$11,415,000**	**$ 913,000***
Core revenues:			
Tonnage: facility	$ 4,370,000	$ 4,399,000	$ [29,000]
Tonnage: mitigation	$ 1,641,000	$ 1,519,000	$ 122,000
Tonnage: Measure D	$ 3,728,000	$ 3,754,000	$ [26,000]
Tonnage: fee enforcement	$ 205,000	$ 200,000	$ 5,000
Benchmark	$ 940,000	$ 849,000	$ 91,000
Property and interest	$ 558,000	$ 614,000	$ [56,000]
Miscellaneous	$ 252,000	$ 162,000	$ 90,000
Total core revenue	**$11,694,000**	**$11,497,000**	**$ 197,000**
Closed contracts and transfers	**$ 390,000**		**$ 390,000**
Core fund balance	**$11,547,000**	**$10,047,000**	**$1,500,000**

*from staff vacancy/salary savings

While staff pursues the Agency's mission of "less than 10% good stuff in the landfill", we have also made a commitment to ultimately match core expenditures to core revenues. Towards that end, the Agency has accumulated substantial fund balances (more accurately described as working capital) and reserves to cover any shortfalls as we proceed with our long term expenditure plan. As stated during our last presentation in February 2016 we do not anticipate a need for a fee increase in the near future, even with the rescission of the benchmark fee effective in FY17/18.

With respect to the surplus in the core budget, most was a result of vacancy and other salary related savings. We generally do have a surplus each year; however with budgets becoming tighter we don't anticipate this level of surplus going forward. We carefully monitor expenditures throughout the year and have safeguards in place to ensure that we don't overspend.

Tonnage Revenues

As of FY15/16 tonnage-based fees comprised over 85% of the Agency's core revenues. The remaining 15% comes from property-related revenues, interest and enforcement activities. At last year's presentation we recommended using a simpler model to project tonnages as the previously used statistical model was no longer viable. Upon examining tonnages going back to 1999 and based on those trends, we chose to implement a 3% annual tonnage decline. However, we have seen an uptick in tonnages this current year. While some of it can be explained by the 21,000 tons of salt disposal from Cargill in Newark, disposal in general has increased. Part of this increase can be explained by an increase in population and a strengthening regional economy, which is also supported by statewide disposal trends.

The attached population trend graph (Attachment A) shows Alameda County population increasing from 1.4 million in 2000 to 1.5 million in 2010 and just over 1.6 million today. In addition, the attached tonnage trend graph (Attachment B) shows the recent uptick in disposal activity. As such, the new baseline for future projections has been adjusted starting with the current fiscal year. From that baseline, we have modestly decreased the projected FY17/18 tonnage estimates by 1% since we don't anticipate reduced tonnage from the new organics MRF (OMRF) at Davis St. until later in fiscal year FY17/18 (based on the expected project completion date).

Tonnage revenues for FY18/19 to FY20/21 show a projected annual decrease of 2.1%. We feel that this is a reasonable estimator based on the new sorting line at Davis St., our increased focus on food waste prevention and continued mandatory recycling ordinance efforts. As always, we will continue to monitor disposal trends carefully and apprise the Boards as needed. Given that we also have a fiscal reserve of $2.1M (that we have never had to use for revenue shortfalls) we feel there is also sufficient cushion should revenues fall significantly below projections.

Core Expenditures

The FY17/18 core budget is currently estimated to total approximately $11.0 million, which reflects a reduction of $400,000 or a 3.7% decline compared to the FY16/17 budget. Using the Board approved guiding principles, staff is in the process of developing the 17/18 budget in a strategic fashion that includes phasing out any “legacy” project that has reached its optimal effectiveness, essentially “zero basing” discretionary projects and looking for cost synergies for committed projects. As shown in the following multi-year forecast, the expenditure projections from FY18/19 to FY20/21 show a reduction of core expenditures of $400,000 annually. We chose a figure that we felt was realistic in terms of reducing our expenditures while still maintaining sufficient resources to fund our programs. These reductions do not reflect salary savings from retirements at this point, but will be included as appropriate in future forecasts. We are also aware that changes in the retirement discount rate and health care cost trends could also impact this forecast. However, pending finalization of the conservation easement with NextERA, we are planning to make a sizeable lump sum payment towards our unfunded liability (hopefully by the end of the current fiscal year) that will reduce annual retirement related operating costs. Furthermore, since the Authority Board adopted a 90% funded status goal for employee pensions, we will continue to seek ways to meet that objective (e.g. use a portion of excess fund balance to make additional lump sum payments).

<u>Multi Year Fiscal Forecast</u>

Based on the revisions discussed above, at the end of FY 20/21 the forecast (Attachment C) shows a shortfall of approximately $600,000 between projected core expenditures and revenues. However, these forecasts do not include potential retirements in FY17/18, the impacts of future retirements or changes in programs that could address the shortfall assuming that the Agency reaches its aspirational goal. If the Agency has not reached its goal there would still be over $19M of combined fund balance and reserves that could bridge that funding gap if needed. Again, we are not advocating or anticipating the need for a fee increase in the near future.

While fiscal forecasts are excellent planning tools, the further out the forecast, the higher the likelihood of imprecision given multiple assumptions and variables. Since we will be presenting a multi-year forecast on an annual basis, we will be able to make timely adjustments to our assumptions and projections as needed.

RECOMMENDATION

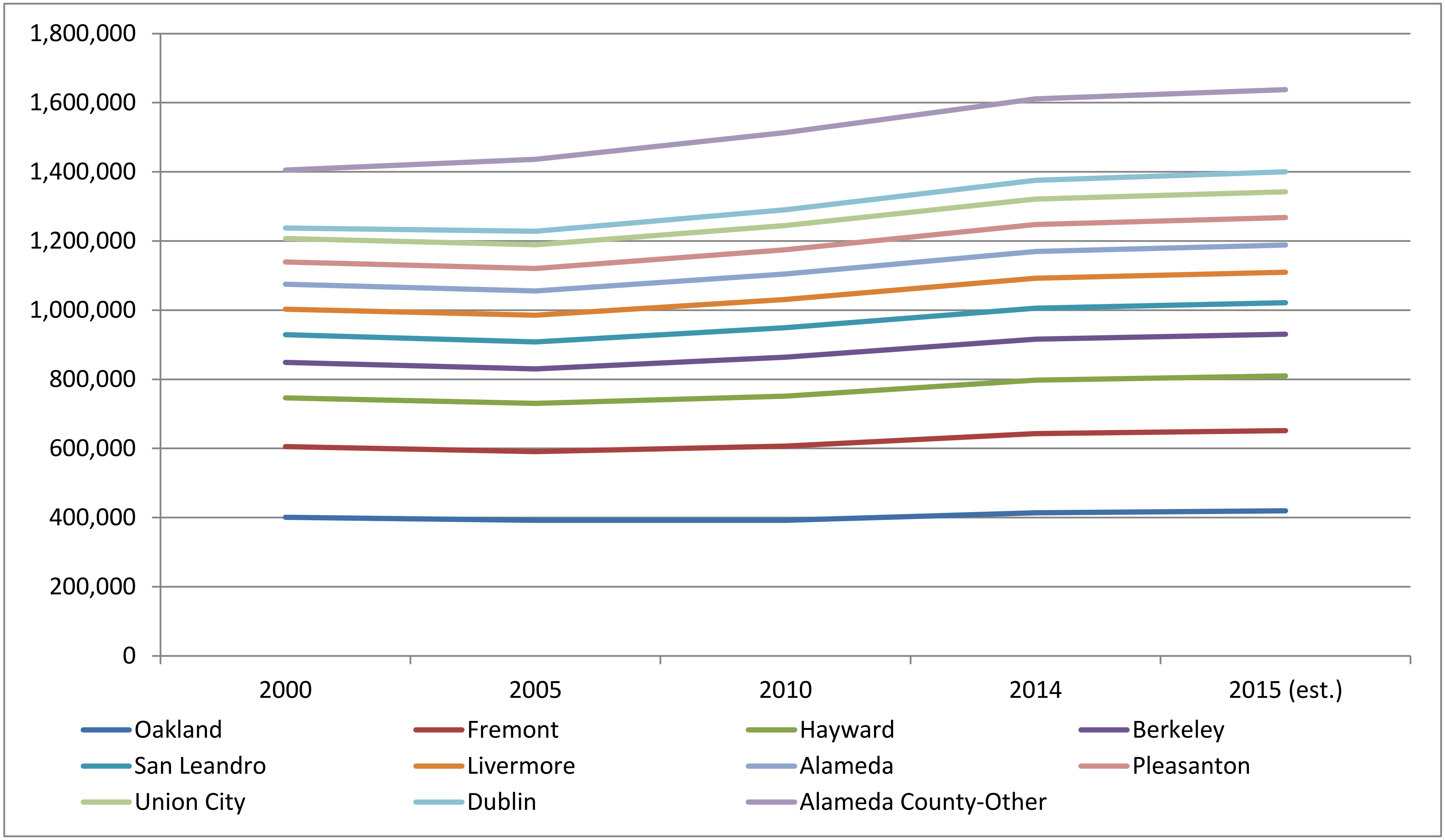
This item is for information only.

Attachment A: Alameda County Population

Attachment B: Disposal Trends

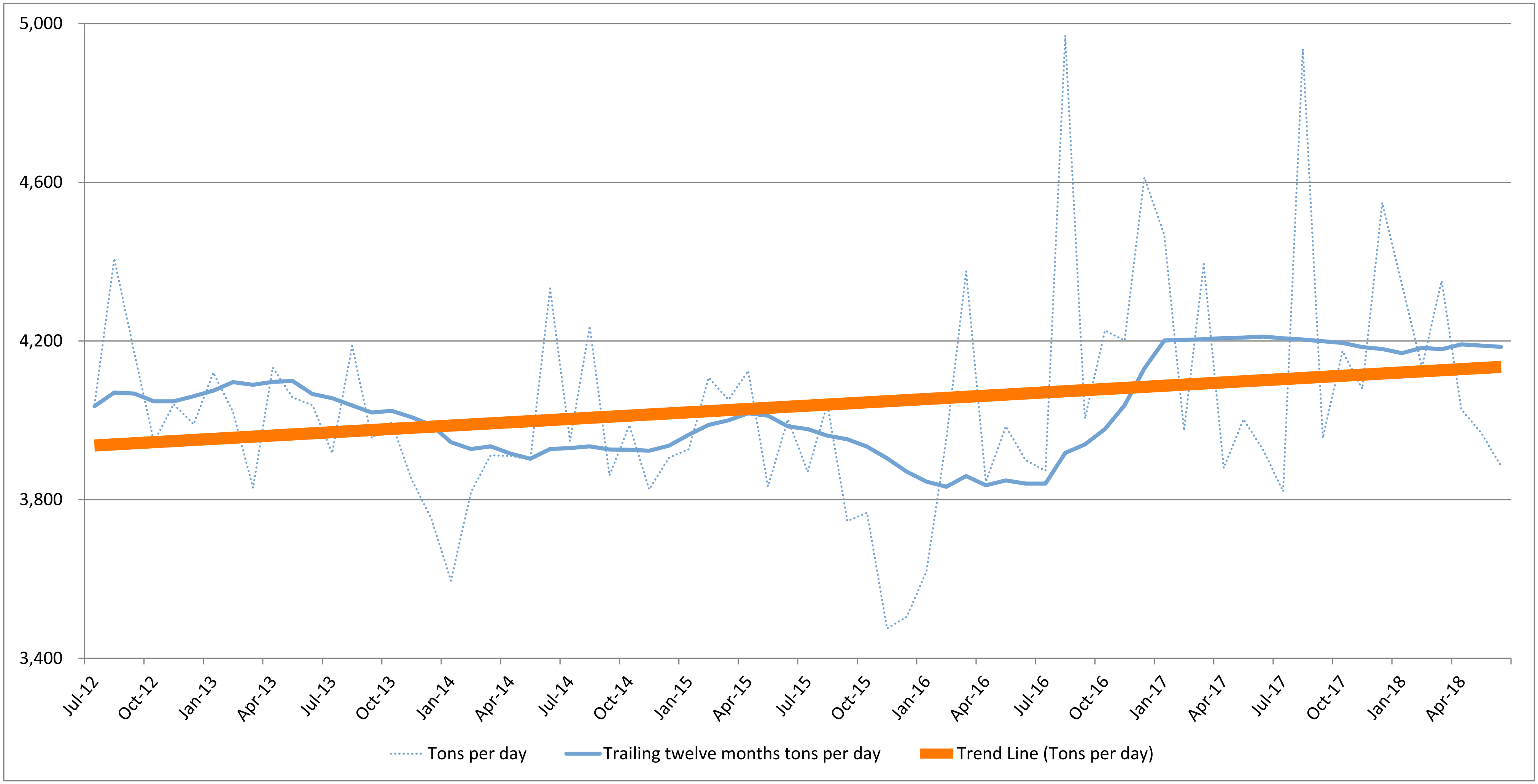
Attachment C: Multi-Year Forecast through FY 20/21

Attachment A: Alameda County Population



Source: US Census Data

Attachment B: Disposal Trends



Note: Mandatory Recycling Ordinance (MRO) 2012-01 effective July 1, 2012

Attachment C: Multi-Year Forecast through FY 20/21