DATE: March 9, 2023

TO: Programs and Administration Committee
Planning Committee/Recycling Board

FROM: Pat Cabrera, Administrative Services Director

SUBJECT: Multi-Year Fiscal Forecast

SUMMARY

In fiscal year 21-22 the Agency engaged the consulting services of Crowe LLP to perform fiscal forecasts and a core fund balance and reserve analysis. This analysis was to help determine an adequate or minimum funding level for those resources. The analysis focused on the Agency's fee-based revenue structure and projected expenditures. Landfill tonnage-based fees are the primary source of revenue for the Agency's discretionary budget (similar to a general fund). Crowe also developed a forecasting model, including seven scenarios, that staff uses to update the projections each year to help determine funding trends and associated fiscal measures to support the Agency's operations and mission. At the March 9 Programs & Administration and Recycling Board meetings, staff will present an overview of the latest analysis and annual fiscal forecast.

DISCUSSION

A key aspect of the Agency's mission is to reduce landfill disposal, as articulated in the Board-adopted Countywide Integrated Waste Management Plan goal of achieving landfill obsolescence by 2050. The Agency has strategically allowed some accumulation of fund balances and/or reserves through the years, knowing that its primary source of revenue will decline over time. Under the current revenue structure, maintaining consistent expenditures will at some point not be sustainable. As revenues decrease, or even if revenues remain flat, consistent or increased expenditures would over time lead to a structural deficit. As such, some threshold of fund balance will be needed to fill in budgetary gaps while critical financial and programmatic decisions are made and implemented, such as reductions in certain expenditures and/or consideration of an increase or restructuring of fees. Given the unique manner in which the Agency is funded (i.e., tonnage-based fees charged at the landfill) and its overall mission to reduce disposal tonnage, determining this threshold required a comprehensive analysis (Attachment 1) designed to provide fiscal guidance based on differing scenarios as discussed below.

FORECAST SCENARIOS

The main purpose of the initial Crowe analysis and development of the fiscal forecasting model was to help determine an adequate or minimum fund balance with reserves that the Agency should maintain that both supports advancement of the Agency's mission today, while also providing the means to plan for the future. To achieve this purpose, the consultants assisted with developing forecasting scenarios as described in the "Scenario Descriptions" table below (see page 9 of Attachment 1 for more a detailed description of each scenario). The Agency intended for these scenarios to cover a range of potential circumstances that could occur in the future and the potential impact of these scenarios on the Agency's reserves and fund balance. We are now and will continue to use these models as part of the annual multi-year forecast.

For purposes of the analysis, Scenario A represents the best case from a revenue perspective, descending to Scenario G which is the worst case, again from a revenue perspective. The basis for Scenarios A, B, C, and F is historical, meaning that a review of historical trends such as disposal changes over a specific time frame and/or impacts from the recession were factored into the forecast. The basis for Scenarios D, E, and G is "goal-based," meaning that the trends reflect longer-term declines in tonnage based on policy goals, such as articulated in the Recycling Plan adopted by the Agency's Recycling Board. To refine our forecast for the coming fiscal year (FY23-24) and beyond, staff added scenario C1 which maintains hard costs at FY22-23 levels.

Scenario Descriptions

Scenario	Brief Description	Tonnage Change	Basis
A. Status Quo with Growth	Slight growth based on most recent five years	Increase	Historical
B. Status Quo	Tonnage stays flat	No Change	Historical
C. Economic Cycle	Declines based on most recent 15 years	Decrease	Historical
CI. Economic Cycle – Static hard cost	Declines based on most recent 15 years. No Hard Cost Expenditure Increase FY23/24	Decrease	Historical
D. Organics	Achieve 75% reduction in landfilled organics by Jan 1, 2025 (FY 24/25) using a FY 21/22 baseline (SB 1383[1]), then tonnage stays flat	Decrease	Goal-based
E. Organics and Recyclables	Achieve 75% reduction in landfilled organics by Jan 1, 2025 (FY 24/25) using a FY 21/22 baseline (SB 1383), then 75% reduction in recyclables by FY 29/30	Decrease	Goal-based
F. Recession	Tonnage declines similar to 2008 Recession to its recovery	Decrease	Historical
G. Recycling Plan	Achieve Recycling Plan goal of 100% diversion by 2045	Decrease	Goal-based

MINIMUM FUND BALANCES AND RESERVES

A component of this analysis was to help determine what the Agency should maintain as an appropriate level of fund balance with reserves. The Crowe report refers to this amount as the "incremental fund balance with reserves," or what Agency staff consider to be the minimum level of funding required per each forecasting scenario in order to continue to efficiently operate while decisions are made to address funding imbalances if needed. This calculation is described in detail on page 12 of the report. Included in the report is the assumption that three years of lead time is needed to undergo a process that addresses funding declines, whether that be through changes to the revenue structure or programmatic changes (i.e., reductions), which take time to implement effectively.

The analysis concluded that the minimum funding level is an amount equivalent to 1 to 1.4 times an average core budget (depending on the scenario). The Agency currently meets that minimum with an additional 10-month surplus (above the minimum contingency funding levels). Therefore, the Agency would have sufficient surplus fund balance and reserves based on any of the eight scenarios to operate under an annual deficit for at least the next three years.

[1] Senate Bill 1383 Short-lived climate pollutants. Section 39730.6. Requires local government to reach a 75% reduction in organics landfilled by January 1, 2025. StopWaste is using a FY 21/22 baseline for the purposes of the projection.

KEY FINDINGS FROM THE SCENARIO ANALYSIS

The Crowe analysis provides a useful tool to the Agency to help identify a level of fund balance and reserves needed to efficiently operate while making critical decisions regarding its revenue structure or level of expenditures. Staff updated the projection models for the most recent fiscal forecast to include actual figures for last fiscal year (FY 21-22) and budgeted figures for the current fiscal year. Based on actual figures and revenues to date, the Agency's fiscal trend closely matches Scenario C.

Here are the key findings from the Agency's latest fiscal forecast analysis:

- Under all eight scenarios, the Agency has accumulated fund balances and reserves, currently totaling approximately $26.8M, which provide a sufficient planning horizon to implement changes which address the structural imbalance between revenues and expenditures.
- Based on the current fund balance, the Agency does not require any fee adjustment at this time. However, reliance on tonnage-based fees under the current rates (as the Agency's primary source of discretionary revenue), will not be adequate to fund operations (assuming a similar expenditure plan), in the longer term.
- The longer-term forecast (through FY 30-31) shows a decline in all fund balances and reserves even in the best-case scenario, with some scenarios showing the Agency exhausting all fund balances and reserves by FY 29-30. That is because even in the scenario which shows revenue growth, it will not outpace expected inflationary impacts.
- The Agency's unique circumstances related to revenue generation and the complexity of adjusting the fees that generate Agency revenue expose the Agency to financial risk in the longer-term, which points to the benefits of maintaining higher fund balance than other area waste management authorities that have different, more nimble fee structures.
- The Agency will use the tools developed on an on-going basis to inform its budgetary and policy decision-making going forward. With active monitoring of the Agency's fund balance, the Agency can proactively assess and manage potential surpluses or deficits. In the event of ongoing deficits three years out, the Agency can, ahead of time, limit or reduce expenditures, or if adjusting expenditures is not sufficient, initiate the two-to-three-year process for approval of a fee increase or fee restructuring.
- The Agency has already begun the process of analyzing options for diversifying and stabilizing revenues for the long-term.

BENCHMARK WITH OTHER AGENCIES

Crowe gathered funding information from neighboring waste management authorities. As shown on pgs. 23 and 24 of the report (Attachment 1), the revenues funding these agencies are structured very differently and as such, are not particularly useful comparators. Central Contra Costa Waste Authority, Marin County Hazardous and Solid Waste, West Valley Solid Waste Management Authority and West Contra Costa Waste Authority receive their revenue through franchise agreements, which can be increased annually. While South Bayside Waste Management Authority and Sonoma County Waste Management Agency do rely on tipping fees, they own the transfer station and/or landfills and can also raise rates annually. The Agency does not own or operate a landfill or transfer station, therefore raising tipping fees or securing another funding source will require voter approval under Proposition 26. As such, the Agency does not have the flexibility to raise fees as do these other authorities, which was one of the key findings by Crowe and further supports the need to have a higher fund balance/reserve and to continue to be nimble and prudent with our expenditures.

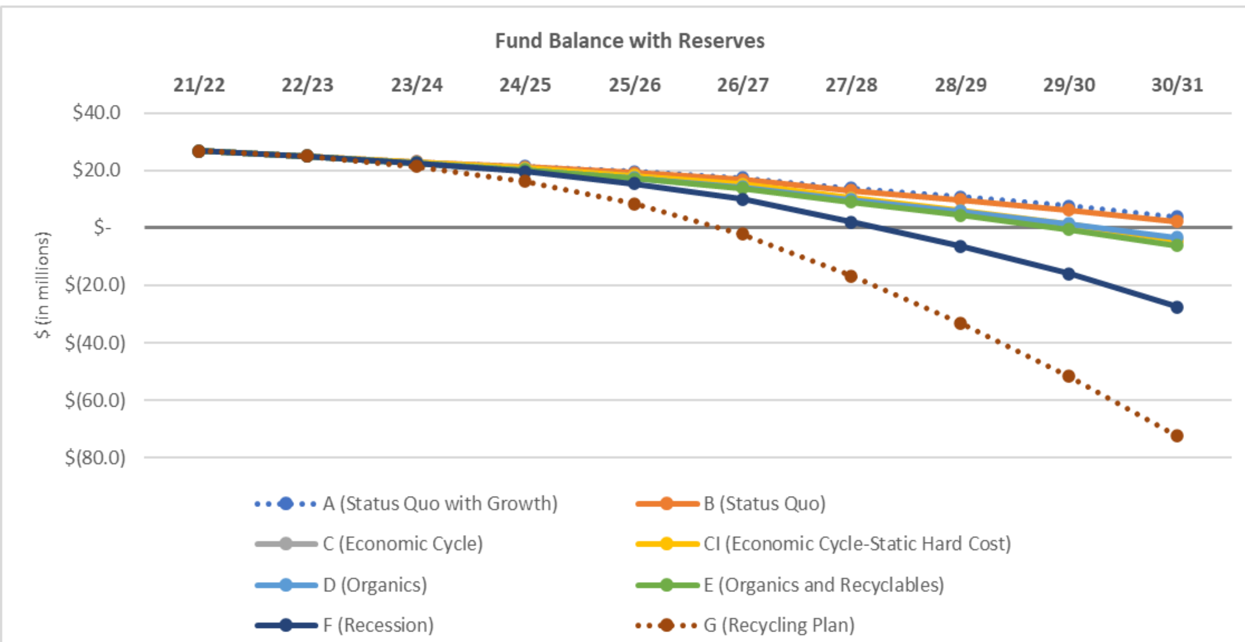
LONGER TERM FORECASTS

While financial forecasting is a valuable tool, the forecasts are estimates that become less accurate the further out data are projected. However, extending the scenarios through FY 30-31 still provides insight as shown below.

Projected Ending Fund Balance with Reserves – Years 3, 6, and 9

Scenario	Base Year 2021/22	Year 3 2024/25	Year 6 2027/28	Year 9 2030/31
A. Status Quo with Growth	$26.8 million	$21.4 million	$13.7 million	$3.9million
B. Status Quo	$26.8 million	$21.2 million	$13.0 million	$2.1 million
C. Economic Cycle	$26.8 million	$20.7 million	$10.2 million	-$4.5 million
CI. Economic Cycle-Static hard cost	$26.8 million	$20.8 million	$10.4 million	-$4.3 million
D. Organics	$26.8 million	$20.1 million	$9.7 million	-$3.4 million
E. Organics and Recyclables	$26.8 million	$20.1 million	$8.9 million	-$6.1 million
F. Recession	$26.8 million	$19.6 million	$2.0 million	-$27.5 million
G. Recycling Plan	$26.8 million	$16.2 million	-$16.7 million	-$72.4million

Projected Fund Balance with Reserves (FY 21-22 through FY 30-31)



As previously mentioned, the longer-term forecast (through FY 30-31) shows a decline in all fund balances and reserves even in the best-case scenario, with scenarios C - G showing the Agency exhausting all fund balances and reserves. That is because simple inflationary increases will outplace revenues in the best-case scenario, and more likely we will experience declines in tonnage-based revenues over time. While the Agency will plan ahead to minimize the risk of these longer-term forecasts, they do highlight the need for the Agency to continue to regularly update the forecasting models to help identify trends and to address this fiscal imbalance at some point in the not-too-distant future.

BUDGET IMPACTS FOR FY 23-24

While the longer-term forecasts indicate that the Agency will need to restructure and diversify its revenue streams, the short-term forecasts show that even in the worst-case scenario the Agency is in a stable financial position. This is helpful in preparing for the upcoming budget in that the Agency has the flexibility to make additional investment in our programs that further our mission. As the chart below shows, the Agency can utilize its funding contingency to fill in the budgetary gaps between revenue and expenditures and still maintain an adequate surplus even in the worst-case scenario (Scenario G, which is highly unlikely) through FY 24-25, and through FY 26-27 in the more likely scenario (Scenario C). Note, this does not mean that the Agency will have exhausted the fund balances and reserves by these dates, only that the accumulated fund balance and reserves would no longer meet the minimum three-year funding contingency for that particular scenario.

Fund Balance with Reserves (in millions)

Scenario	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31
A (Status Quo with Growth)	$26.8	$24.9	$22.9	$21.4	$19.5	$17.3	$ 13.7	$ 10.8	$ 7.6	$ 3.9
B (Status Quo)	$26.8	$24.9	$22.9	$21.2	$19.2	$16.8	$ 13.0	$ 9.8	$ 6.2	$ 2.1
C (Economic Cycle)	$26.8	$24.9	$22.7	$20.7	$18.1	$14.9	$ 10.2	$ 5.9	$ 1.1	$ (4.5)
CI (Economic Cycle-Static Hard Cost)	$26.8	$24.9	$22.8	$20.8	$18.2	$15.1	$ 10.4	$ 6.0	$ 1.2	$ (4.3)
D (Organics)	$26.8	$24.9	$22.5	$20.1	$17.4	$14.2	$ 9.7	$ 5.7	$ 1.4	$ (3.4)
E (Organics and Recyclables)	$26.8	$24.9	$22.5	$20.1	$17.2	$13.8	$ 8.9	$ 4.4	$ (0.5)	$ (6.1)
F (Recession)	$26.8	$24.9	$22.5	$19.6	$15.4	$ 9.9	$ 2.0	$ (6.3)	$(16.0)	$(27.5)
G (Recycling Plan)	$26.8	$24.9	$21.4	$16.2	$ 8.4	$ (2.2)	$(16.7)	$(33.2)	$(51.6)	$(72.4)

Staff is in the process of preparing the FY 23-24 budget, which will be presented at the joint session of the Boards and the Energy Council on April 26, 2023. While the Agency will always exercise fiscal prudence, this analysis provides particularly useful information given potential higher expenditures associated with SB 1383 implementation, prioritization of efforts to build upstream infrastructure and reduce single-use foodware, and additional focus on grant distribution, particularly to underserved communities.

PLANNING FOR THE FUTURE

Staff is currently analyzing various options to stabilize its core revenue and will be presenting findings to the Boards upon completion of the analysis. Furthermore, the Agency is taking proactive measures regarding expenditures, such as by limiting hiring and carefully managing vacancies. The Agency will continue its practice of paying down unfunded liabilities which significantly reduces annual operating expenses.

RECOMMENDATION

This item is for information only. Staff will continue to prepare and present annual fiscal forecasts using these newly developed models and advise the Boards of any changes in disposal trends which would require significant changes to Agency expenditures and/or revenues.

Attachment 1: Crowe report: Fiscal Forecasts and Fund Balance/Reserve Analysis