



**DATE:** February 17, 2016

**TO:** Waste Management Authority Board

**FROM:** Wendy Sommer, Executive Director

**BY:** Pat Cabrera, Administrative Services Director  
Mark Spencer, Senior Program Manager

**SUBJECT:** Updated Multi Year Fiscal Forecasts

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## **SUMMARY**

To prepare for the development of the upcoming FY16/17 budget, staff reviewed the long term fiscal forecasts and the current statistical model used for projecting tonnage-based revenue. Both the forecasts and revenue projection model are inaccurate and outdated. At the WMA meeting, staff will present updated information on these two items.

## **DISCUSSION**

As fiscal forecasts are directly linked to the revenue projection model, staff will discuss both items in one report beginning with the methodology used to project tonnage-based revenues.

### **Revenues**

During the FY09/10 budget development process an in-depth statistical analysis was conducted to help determine tonnage related revenue. We determined that national unemployment and variables accounting for monthly variation created the strongest explanations for variations of tonnages disposed from Alameda County jurisdictions. The San Francisco model developed in this process utilized unemployment and a time function. Although statistically significant, the model projections still required manual reductions to better account for the impacts of our and member agency waste reduction efforts. While the model was impressively accurate when we began using it, the correlation between unemployment and tonnages has weakened in recent years. We were able to improve the fit of the model to historical data two years ago by adding a statistically significant 'dummy variable' to account for the impact of waste reduction policies instead of using a manual adjustment as in previous years. However, the fit of the model to recent data has continued to decline to the point where predicted outcomes are sufficiently inaccurate so as to be no longer useful.

This issue was discussed as part of the mid-year budget report, specifically whether it should be used in developing the FY16/17 budget or whether some other type of estimator should be used instead. Staff will present historical tonnage trends and discuss our ability to project future tonnages given past trends.

Given the present situation staff recommend that the agency discontinue use of the current statistical model and for the coming 2016-2017 fiscal year base future projections on the long-term 3% decline in tonnages that can be seen when one examines tonnages going back to 1999. This 3% reduction factor was utilized prior to the development of the current model. Staff will monitor disposal trends carefully and will apprise the Board of any issues or proposed changes to projections during budget development, at mid-year or sooner if necessary. 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.

### **Multi Year Fiscal Forecasts**

At the November 18, 2015 Authority Board meeting, two fiscal forecasts (Attachment 1) were presented which showed deficit fund balances in FY 19/20 of \$2.8M and \$4.0M respectively depending on the level of core spending. However these forecasts were predicated on the Authority meeting its “less than ten percent good stuff in garbage” goal which as discussed last month, does not appear attainable by FY19/20. Using the proposed projection model and based on the same expenditure scenarios (Attachment 2) there would be available fund balances at the end of FY19/20. Furthermore, in this and the following scenarios the fund balance in FY15/16 has been lowered by \$500K (compared to Attachment 1) to coincide with the mid-year budget.

The following forecasts (Attachment 3) are also based on the revised revenue projections and include the Agency’s reserves. Scenario 3 show core expenditures remaining constant at \$11.4M and Scenario 4 show core expenditures declining slightly starting in FY 18/19 as a result of projects either contracting or ending or through vacancies that are either not filled or filled at a lower cost (e.g., due to pension reform). In either scenario there is a positive fund balance of \$4.1M and \$5.3M, respectively. In addition, as shown we project at least \$11.6M of reserves available in FY19/20. The fund balance and reserves combined comprise well over one year’s core budget.

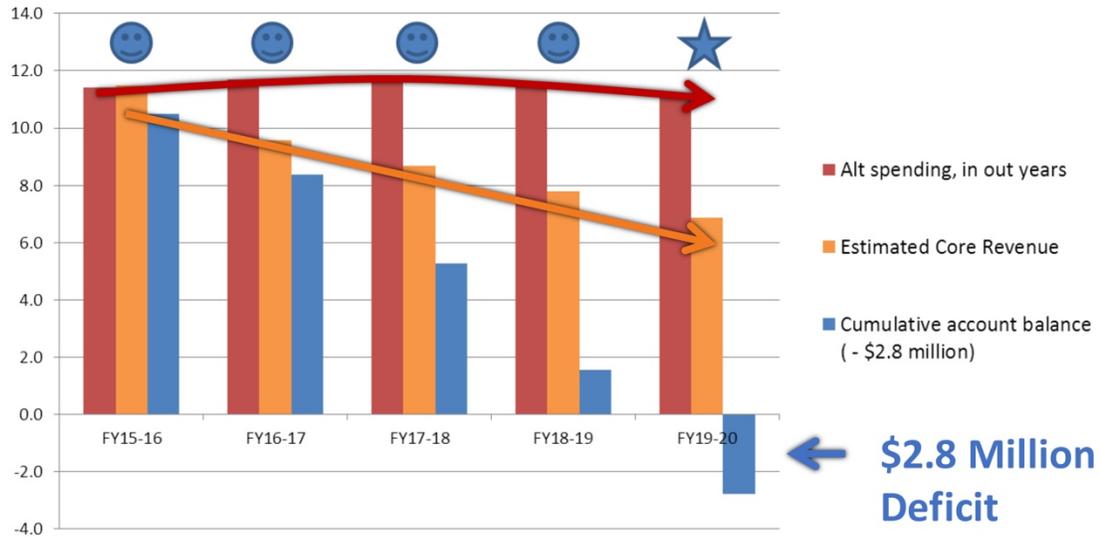
These scenarios are for illustrative purposes and are not part of a proposed budget plan. Solid fiscal management practices align ongoing expenditures with ongoing revenue which should be the Agency’s long term objective. However, with the loss of San Francisco mitigation revenue we anticipate using fund balance and as appropriate reserves if needed to assist us in attaining our diversion goal, and then working systematically towards matching expenditures with revenues. Based on these projections which we will update at least annually, we don’t anticipate the need for a fee increase in the near future. Through very prudent spending these past years we have accumulated a large fund balance in addition to our reserves which will provide a solid funding contingency as we work towards achieving our goals.

### **RECOMMENDATION**

This item is for information only.

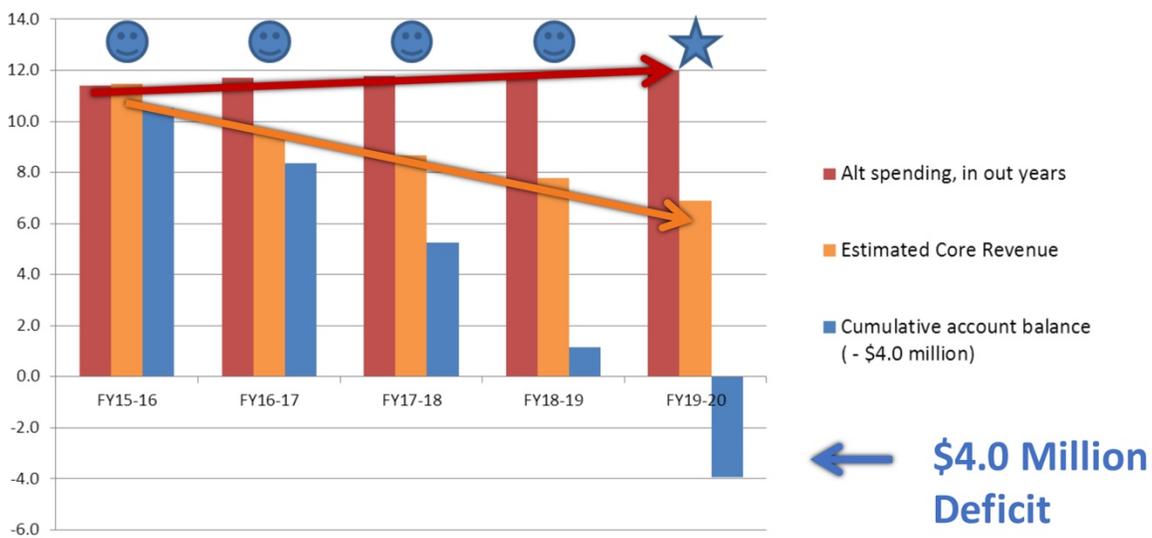
## Previous Forecast: Scenario 1

- Expenditures peaking in FY17-18
- Revenue dropping according to original projection



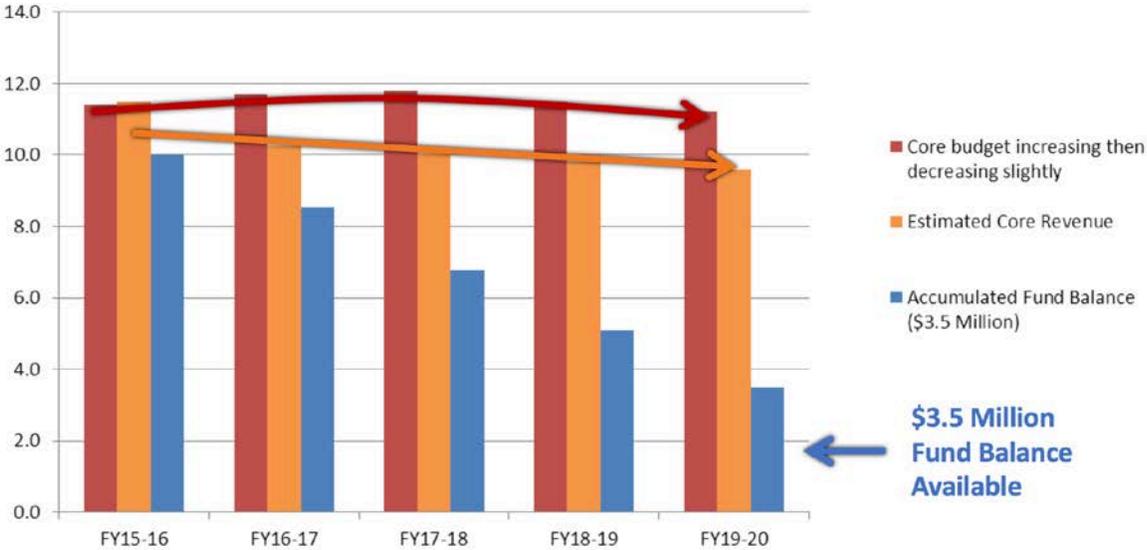
## Previous Forecast: Scenario 2

- Expenditures continue to rise
- Revenue dropping according to original projection



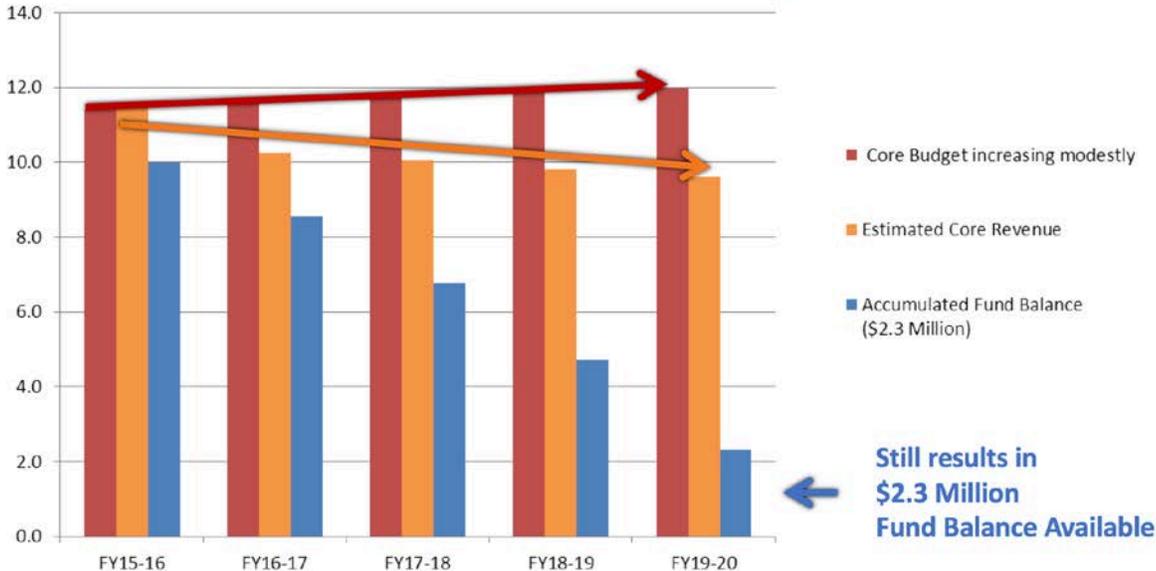
### Revised Forecast: Scenario 1

- Expenditures peaking in FY17-18
- Revenues adjusted for new waste projection



### Revised Forecast: Scenario 2

- Expenditures continue to rise
- Revenues adjusted for new waste projection



Attachment 3

### New Forecast: Scenario 3

- Expenditures stable
- Revenues adjusted for new waste projection
- Accumulated Reserves shown along with Fund Balance



\$4.1 Million Accumulated Fund Balance + \$11.6 Million Accumulated Reserves.

### New Forecast: Scenario 4

- Expenditures drop in FY18-19
- Revenues adjusted for new waste projection
- Accumulated Reserves shown along with Fund Balance



\$5.3 Million Accumulated Fund Balance + \$11.6 Million Accumulated Reserves.

Attachment 4

**WASTE MANAGEMENT AUTHORITY  
SCHEDULE OF RESERVES  
FISCAL YEAR 2015-2016 MIDYEAR BUDGET**

DESCRIPTION

WMA

|   | BALANCE<br>JULY 1, 2015 | TRANSFERS<br>IN     | TRANSFERS<br>OUT      | BALANCE<br>JUNE 30, 2016 |
|---|-------------------------|---------------------|-----------------------|--------------------------|
| <b>DESIGNATED RESERVES</b>                                |                         |                     |                       |                          |
| ORGANICS PROCESSING DEVELOPMENT                           | \$ 6,580,226            | 1,000,000           | \$ (472,690)          | \$ 7,107,536             |
| EAST BAY MUD COMMERCIAL FOOD WASTE<br>DIGESTER PROJECT    | 1,000,000               |                     | (1,000,000)           | -                        |
| DIVERSION PROJECT:<br>PRODUCT DECISIONS                   | 137,370                 |                     | (114,514)             | 22,856                   |
| PENSION LIABILITY RESERVE                                 |                         | 700,000             | (600,000) (a)         | 100,000                  |
| <b>FISCAL RESERVE</b>                                     | 2,105,019               |                     | (700,000)             | 1,405,019                |
| <i>Sub-total</i>  | <u>9,822,615</u>        | <u>1,700,000</u>    | <u>(2,887,204)</u>    | <u>8,635,411</u>         |
| <b>CONTRACTUALLY COMMITTED RESERVES</b>                   |                         |                     |                       |                          |
| DIVERSION PROJECT:<br>MRF CAPACITY EXPANSION-DAVIS STREET | 439,661                 | 229,724             | (575,984)             | 93,401                   |
| WMA TRANSPORTATION<br>IMPROVEMENT PROGRAM (TIP)           | 3,441,987               |                     |                       | 3,441,987                |
| <i>Sub-total</i>  | <u>3,881,648</u>        | <u>229,724</u>      | <u>(575,984)</u>      | <u>3,535,388</u>         |
| <b>Total</b>  | <u>\$ 13,704,263</u>    | <u>\$ 1,929,724</u> | <u>\$ (3,463,188)</u> | <u>\$ 12,170,799</u>     |

(a) To pay down Gasb 68 pension liability.

**ALAMEDA COUNTY SOURCE REDUCTION AND RECYCLING BOARD  
SCHEDULE OF RESERVES  
FISCAL YEAR 2015-2016 MIDYEAR BUDGET**

RB

DESCRIPTION

|                       | BALANCE<br>JULY 1, 2015 | TRANSFERS<br>IN | TRANSFERS<br>OUT | BALANCE<br>JUNE 30, 2016 |
|-----------------------|-------------------------|-----------------|------------------|--------------------------|
| <b>FISCAL RESERVE</b> | \$ 694,981              |                 |                  | \$ 694,981               |
| <b>Total</b>          | <u>\$ 694,981</u>       | <u>\$ -</u>     | <u>\$ -</u>      | <u>\$ 694,981</u>        |